

UK airline may sue over EU subsidies

By Paul Betts,
Aerospace Correspondent

British Midland Airways (BMA), the UK's second largest airline, is considering taking legal action against the European Commission for failing to enforce new rules against government subsidies for financially troubled European state-controlled airlines.

Sir Michael Bishop, BMA's chairman, said yesterday his airline was already taking legal advice over possible action against the Commission. He claimed Brussels was distorting the new liberalised European aviation market by failing to uphold the new rules against state subsidies to ensure fair competition in its third airline liberalisation package which came into force at the beginning of this year.

"Smaller airlines were entitled to expand their services in the new deregulated market on the grounds that the EU would stop state aid for national flag carriers," Sir Michael said. With Brussels failing to clamp down on these subsidies, smaller airlines have been badly hit while bigger, financially troubled, state-owned carriers have been able to continue operating under the protection of large government handouts, he argued.

Troubled state carriers, including Air France, Air Portugal and Aer Lingus, are receiving substantial financial support from their governments provoking, in Sir Michael's view, "a grotesque distortion" of the new EU open air-line market.

A number of smaller airlines are going bust, while the bigger companies, which are really bust are being allowed to carry on through artificial supports," he said.

Sir Michael said he had already raised these issues with the EU competition and transport commissioners at a meeting of the European Airlines Association in Brussels last Friday.

Although the UK government has also campaigned against state support for European national carriers, Sir Michael also accused the British government of distorting the UK airline market by failing to review last year's acquisition of Dan-Air, the Gatwick-based regional carrier, by British Airways for a nominal £1.

"The UK government has also let down smaller airlines by turning Nelson's eye to BA's takeover, first of British Caledonian and then of Dan-Air," he said. As a result BMA had been squeezed out of two routes in Europe and the UK. Unlike several other smaller European airlines, BMA had been able to compete against the larger flag carriers because of its strong position at London's Heathrow airport, where it holds the second largest number of landing slots after BA, and its partnership with Scandinavian Airlines System (SAS), which currently owns 34.9 per cent of the UK carrier.

Spanish showdown on incomes policy

Workers in Spain are planning protests across the country today as the unions start to test the government on its attempts to secure an incomes policy for the next three years.

Agreement on wage moderation is central to efforts by Mr Felipe González, the prime minister, to pull Spain out of recession. But three months of talks aimed at securing a social pact between unions, employers and government have produced nothing.

Both the government and unions are digging in their heels. Mr González says he will force through measures to deregulate the labour market and to peg wages below inflation, whether or not he has an agreement. He has put a November 30 deadline on the talks. Officials say emergency legislation will be put before the cabinet on December 3.

The unions say they will follow up today's protests with a 24-hour strike towards the end of December. The prospect is now one of a government-union showdown marked by escalating industrial unrest that is likely to undermine confidence in the peseta.

More talks on the social pact are planned for tomorrow but it is unlikely anything can now be agreed.

Mr Pedro Solbes, the economy minister, who drew up the reform package, sums up the

Talks between unions, employers and government have failed to secure a social pact and protests begin today, writes Tom Burns

government's frustration over the negotiating process: "Rarely have I attended such long meetings with so little to show for them." The government would have preferred a consensus, but it is determined to act alone because the reforms are "urgent and necessary".

The talks were probably doomed from the start. In early October Mr González acknowledged as much in an interview with the FT: "The great problem of the social pact is that the government has nothing to give in exchange. We are asking for an incomes policy to improve competitiveness, for changes in traditional collective bargaining procedures and for a modification of the labour market that will make it more flexible... this requires a cultural change in union attitudes and this is very difficult."

The unions may be blamed for intransigence but the government can equally be accused of failing to face up to the unions in the past and of now attempting to do too much, too late. The rigidities concerning fixed employment conditions, severance terms

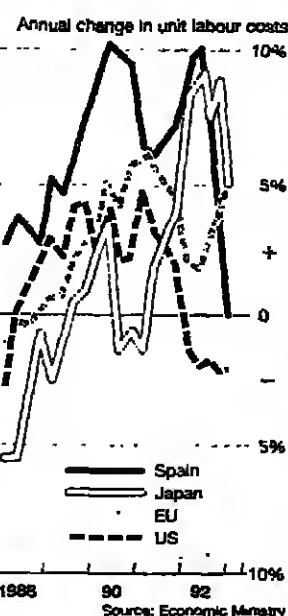
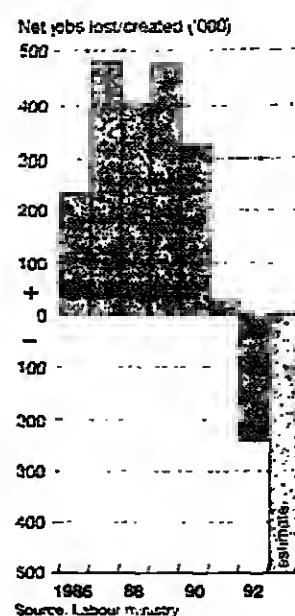
and job classifications that Mr González now seeks to loosen were enshrined in a Workers' Statute that was legislated by his government in 1984.

At that time Spain, which was then not a member of the European Union, enjoyed a highly protected economy, had strong pent-up growth potential and a cheap labour force. None of these conditions applies today as Spain enters its second year of recession, with the domestic economy contracting 1 per cent by the third quarter.

During the economic growth period of the late 1980s, the government did little to curb inflationary wage agreements in public sector companies and forced up unit labour costs by transferring a growing social security burden on to companies. At present 24 per cent of Spain's social security expenditure is financed directly by companies, against an average of 9.8 per cent in the EU.

Attempts by the government to stimulate jobs were counterproductive or short-lived. A system of short-term contracts introduced in 1986 merely created a rotating system that had

Spain



Source: Labour Ministry

Source: Economic Ministry

employees alternately working and receiving unemployment benefits, and a youth employment scheme was abandoned after a general strike in 1987.

Mr Carlos Ferrer Salat, the chairman of Unice, the European employers' confederation, points out that Spain now has double the EU's unemployment rate, three-times that of the US and 10-times that of the Pacific rim. "Europe has the

most costly and rigid labour market in the world and Spain has the most costly and rigid labour market in Europe," said the Barcelona-born businessman.

In the midst of the worst post-war recession that Spain has endured, the government has now come round to facing the deep-seated structural problems that it believes are preventing job creation, even in growth periods, and which

have forced up wages even when the economy was flat.

"Why does our economy only create jobs when it is growing by more than 2 per cent?" Mr Solbes asked a recent meeting of businessmen in Barcelona. "Why, even when we are booming, do we have unemployment levels of 16 per cent? How is it that in the midst of a recession, wages increase above our inflation level and above those in other countries that are better off than Spain?"

Mr Solbes, an economist, knows the answers perfectly well and he has brought Mr González round to understanding the nature of the problem. This is why the government has embarked on its go-it-alone course of imposing an incomes policy and reforming the labour market.

By January 1 Mr Solbes wants clear guidelines in place that will hold down wages to below inflation over the next three years. He also wants new laws that end fixed-term employment contracts, permit job mobility, streamline redundancy procedures and lower severance costs, and which substitute sectorial collective wage agreements with case-by-case deals.

Bracing himself for the forthcoming bout of labour unrest, Mr Solbes is talking tough: "The country is in no position to have strikes. It has to get down to work."

French express optimism on deficit target

By David Buchanan in Paris

The French government said yesterday it would be able to keep this year's budget deficit to the original target of FF317.6bn (536.3bn), chiefly thanks to the influx of privatisation receipts and some juggling with social security accounts.

Presenting a year-end "rectifying" mini-budget, Mr Nicolas Sarkozy, the budget minister, said it had been a long time since a French government had "hit its deficit target to the very last centime".

Since this year's budget was voted in June, the government has been able to make economies of FF22.3bn. Half of this has come from smaller debt service charges (FF13.7bn) as a result of lower interest rates, and from this summer's big "Balladur bond" issue. The bond saved the government FF7.5bn it would otherwise have had to pay in short-term borrowing costs.

The FF22.3bn savings balanced out the recession-induced FF13.2bn drop in tax receipts - which would have been far greater had not Paris paid FF6.5bn less to the European Union budget than it originally calculated - and an

extra FF11.8bn which the Balladur government has forked out this year to help the housing sector and to placate its farmers.

But Mr Sarkozy's self-satisfaction yesterday was made possible by shuffling some FF16.6bn in school aid to the family allowance fund - one of the few in the welfare system to be in surplus - and by using some of the privatisation receipts, which constitute backing for the Balladur bond issue, for current budget expenditure.

Such ruses may become increasingly necessary if France is to stick to its commitment, contained in the Maastricht convergence plan it presented to EU partners this week, to reduce total French public deficits to 2 per cent of national output by 1997.

The credibility of this goal depends on the economy returning to growth in 1994. Mr Edmond Alphandéry, the economy minister, yesterday dismissed October's 1.2 per cent drop in consumer goods sales as a blip in the uneven path to recovery. Citing encouraging trends in housing starts and investment intentions, he held to his forecast of 1.4 per cent real growth next year.

Bosnian Serbs ease blockade on aid convoys

By Laura Silber in Belgrade

United Nations aid convoys yesterday crossed front lines carrying emergency relief for central and eastern Bosnia while Serb leaders called for the lifting of punitive sanctions against Yugoslavia.

Serb commanders in eastern Bosnia yesterday finally allowed the passage of three convoys carrying food for the Muslim enclaves of Tuzla, Zepa and Srebrenica, which have been designated UN "safe areas", said Miss Lyndall Sachs of the UN High Commissioner for Refugees (UNHCR).

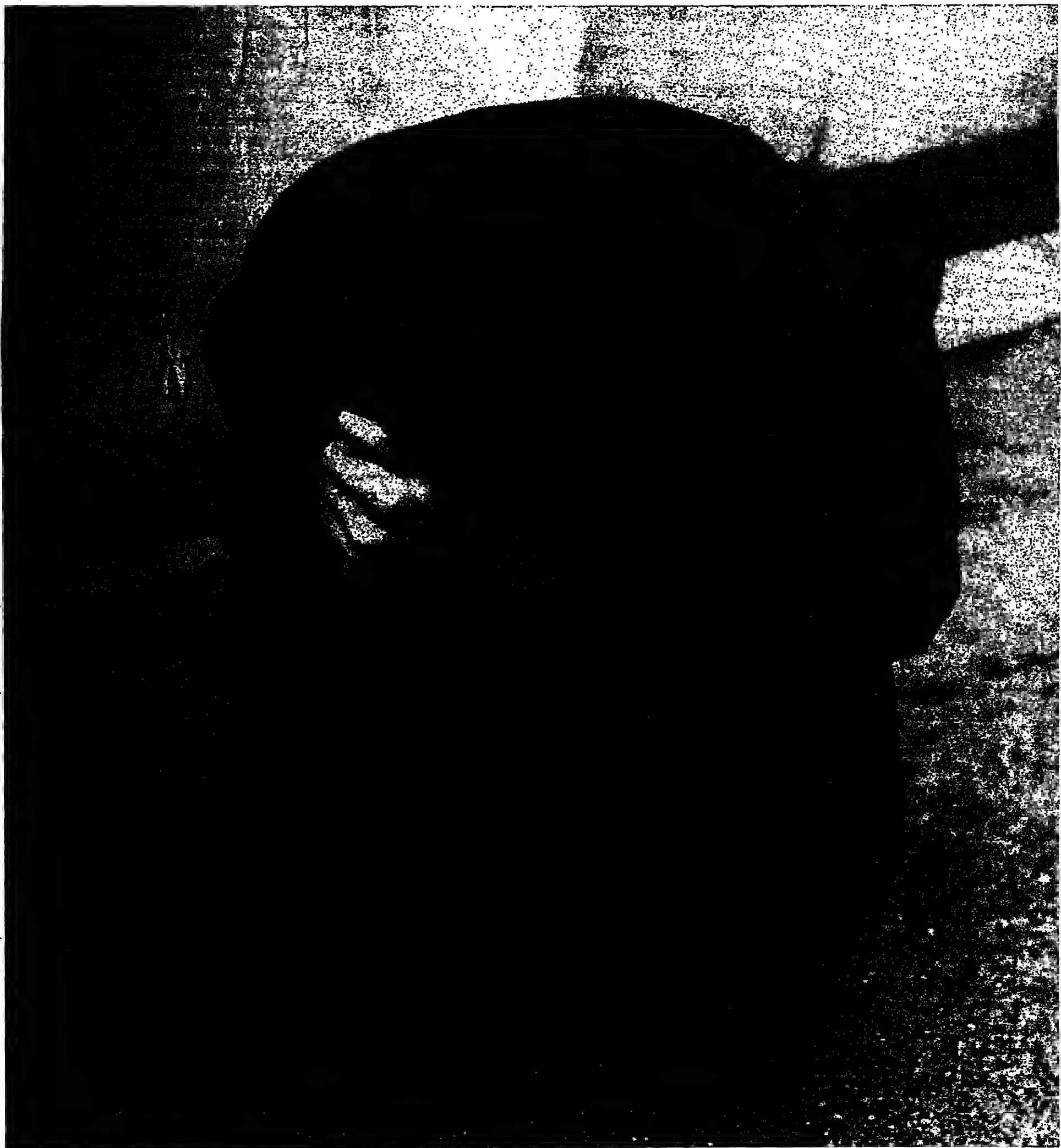
But Serb leaders continued to block the passage of food and winter supplies for another "safe area", Gorazde, south-eastern Bosnia, as they apparently tried to push forward towards the Muslim enclave. UN military observers yesterday reported heavy Serb artillery fire on the enclave.

At the same time, two convoys headed for UNHCR warehouses in Zenica, central Bosnia. Overland convoys were

suspended to central Bosnia on October 26 after a Danish lorry driver was killed. The leaders of the three warring parties last week pledged to allow free access for relief.

Serb leaders stepped up their campaign for the lifting of UN sanctions, imposed 19 months ago in response to the carve-up of Bosnia. Mr Radovan Karadzic, Bosnian Serb leader, called on the UN to suspend sanctions on what remains of Yugoslavia. "We must not rely only on him to suspend sanctions. If the international community wishes talks to succeed, it must suspend sanctions now and allow the Serb side to be fully equal in the talks," reported Tanjug, the official news agency.

But remarks by Mr Momcilo Krajisnik, a Bosnian Serb leader, yesterday cast doubt on new peace talks with the 12 European Union foreign ministers in Geneva next Monday. The Serbian side would apparently seek a postponement although he added they would attend if necessary.



"Hello, is there anybody there?" said the Future. You can ignore the future but it won't go away. A truly integrated Europe is coming, in one form or another, sooner or

later. Of this we can all be sure. Indeed in many ways it is already here. There is for instance already a newspaper for Europe. It gives you a European perspective on business, politics, society, culture and all that matters. It is published weekly, and read widely. For pleasure and for business. For information and for stimulation. Is there anybody there? Yes, Yes, Yes, we are here in our millions. Europe is changing. Are you standing still?

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NEWS: INTERNATIONAL

Thailand sets out on path to freer market

By Victor Malik in Bangkok

The Thai government plans a series of economic reforms in the coming months, with the emphasis on liberalising the financial sector and reducing import tariffs to improve the competitiveness of Thai commerce and industry, Mr Tarrin Nimmannahaeminda, finance minister, said yesterday.

In an interview with the Financial Times, Mr Tarrin said the first step was to expand the scope of operations which can be undertaken by the 47 banks granted offshore banking licences under the Bangkok International Banking Facility (BIBF).

The plan was to allow BIBF licence holders from early next year to open additional branches outside Bangkok and start lending in local currency up to specified limits, although they would not be permitted to accept local deposits and would have to raise funding from the money markets. "The BIBF would be upgraded into restricted branch operations," Mr Tarrin said.

Later, foreign banks would

be allowed to open additional conventional branches and more such institutions would be granted access to Thailand. Now, foreign banks are allowed only one branch and cannot have electronic banking outlets except on their premises.

The hope was that the Uruguay Round of world trade talks would be successfully concluded this year. Thailand was planning "massive" customs tariff reforms, involving lowering those on raw materials imports, making tariffs more logical, and cutting the number of rates to six from 51.

Import tariffs would be progressively reduced, independent of reductions due under the ASEAN Free Trade Area and the General Agreement on Tariffs and Trade, to expose Thai business to competition.

"This is a big move for Thailand. What you will see in the longer term (say three years from now) is a much freer market, much more vibrant imports, you'll begin to see more investment, taking advantage of this and turning

it around to exports," Mr Tarrin, former president of Siam Commercial Bank, added.

Although the five-party coalition government of which Mr Tarrin is a member is unstable, economic reform plans are at an advanced stage and generally supported by technocrats in the bureaucracy, if not by industrialists in protected sectors such as petrochemicals.

The Thai economy continues to perform robustly despite the weak state of Thailand's export markets in Europe and Japan. Export growth is expected to reach only 10 per cent this year, compared to a forecast 15 per cent, but this is mainly the result of weak agricultural commodity prices; electronics exports are still rising sharply and the domestic market remains strong.

Mr Tarrin said he expected real gross domestic product to increase 7.5 per cent this year and 7.5-8 per cent in 1994. Inflation this year has fallen to about 3.6 per cent, but inflationary pressures next year would probably prompt a rise in interest rates.

Pressure for Japan discount rate cut resisted

By William Dawkins in Tokyo

Japan's central bank yesterday resisted pressure for another cut in the official discount rate, despite a continued slide in industrial output.

Mr Yasuhide Mieno, governor of the Bank of Japan, admitted to "grave concern" about the continued falls in share prices, which brought the Nikkei index down another 1.3 per cent yesterday. A fall of 317.73 points to 17,067.11 reflected deepening gloom about Japanese industry's poor profits outlook.

But "in the current economic adjustment phase, lower interest rates alone will not create fresh demand," said Mr Mieno, responding to suggestions that the bank might be considering another cut in its main rate, already at a record low.

As he spoke, the Ministry of International Trade and Industry disclosed that industrial production dropped by 3.5 per cent year-on-year in the third quarter, the eighth quarterly decline running.

Worryingly, inventories were 1.1 per cent higher at the end of September than three months earlier. This indicates that production will stay sluggish at least until the end of the year, MITI said.

To worsen the gloom, the Japan Automobile Manufacturers' Association announced the sharpest monthly drop in vehicle production for 19 years.

Vehicle output, which with car sales is an important indicator of consumer sentiment, plunged 15.7 per cent in October from a year earlier.

Mr Mieno saw no sign of a general economic recovery, but doubted that the recession would develop into a "worsening spiral".

The central bank had "taken all necessary steps in terms of monetary policy," after cutting its main rate seven times since July 1991, to 1.75 per cent.

Japan's economic health had not changed either way since the most recent rate cut in September, he said.

Jordan bank deal imminent

By James Whittington in Amman

Jordan and the Palestine Liberation Organisation are close to signing an agreement which will give the Central Bank of Jordan (CBJ) wide-ranging monetary responsibilities during the transitional period of Palestinian self-rule.

A draft copy of the document gives Jordan's central bank the job of supervising and monitoring banks which open branches in the West Bank and Gaza Strip. It provides for the continuation of the Jordanian dinar as legal tender during the interim period. And it gives the CBJ ultimate responsibility for control of the money supply in the occupied territories and inflation and capital flows.

Mr Mohammad Nashashibi, chairman of the PLO's department of economic affairs and planning, says once the agreement is signed within the next few weeks, a joint Jordanian/Palestinian monetary and banking committee will be established to oversee the bank's policies in the territories. This will include CBJ officials and Palestinian economists approved by the PLO.

The agreement is still pending approval by the PLO in Tunis which remains nervous about giving too much control to the Jordanian monetary authorities. PLO officials insist the arrangements will be temporary.

Mr Michel Marrou, deputy governor at the central bank, says it is happy to play the role of supervisor but before the agreement enters into force it must iron out differences with Israel over foreign exchange controls and the convertibility of the Israeli shekel.

The Jordanian/Palestinian draft agreement stipulates that banks in the occupied territories will operate solely under Jordanian law. It also provides for Palestinian companies in the territories to issue shares on the Amman financial market. An official announcement is expected by mid-December.

Meanwhile, Palestinian officials have announced plans to establish a mixed-sector Palestinian Bank for Development and Reconstruction in the West Bank town of Jericho. Mr Nashashibi says the bank's capital will come from wealthy Palestinian businessmen and the PLO and will be used to develop housing, industry and agriculture.

The Palestinians eventually want their own central bank, currency, and a Palestine stock exchange. But Mr Mohammad Saed Nabulsi, Jordan's central bank governor, recently said in a speech to Jordanian businessmen that such ideas would be unmanageable.

"After a short period of romance, with their own cur-



Egyptian President Hosni Mubarak (left) and Jordan's King Hussein inspect the honour guard in Cairo yesterday. The king is hoping to improve relations soured during the Gulf War in 1990.

One of the first tasks of the central bank will be to help commercial banks open branches in the occupied territories. Eight banks operating in Jordan, including the British Bank of the Middle East and ANZ Grindlays, have expressed an interest in re-opening branches closed after the 1987 war.

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"After a short period of romance, with their own cur-

rency and a central bank, the reality will prove to be a big mistake," he said. He argued that the monetary responsibilities of the CBJ in the occupied territories should be seen as a step towards economic unity with Jordan and confederation.

Since the announcement of the PLO-Israeli peace accord, Jordan has been concerned about economic marginalisation by both Israeli domination of the Palestinian market and foreign aid aimed at developing the occupied territories to the exclusion of Jordan. However, monetary and banking responsibilities in the occupied territories goes some way to allay these fears.

Lee risks losing face on Taiwan vote trail

Dennis Engbarth on the first time the president has publicly sought the support of the people

Taiwan's President Lee Teng-hui is putting his prestige and political future on the line by publicly campaigning for candidates of his ruling nationalist party, the Kuomintang (KMT), in city and county elections to be held on Saturday.

The election is the first to take place since Mr Lee completed the process of bringing the Taiwan government and the KMT under the control of Taiwan-born leaders this year. The results could affect the stability of his hold on power and the progress of liberalising political and economic reforms.

Mr Lee said last week that his campaigning marked the first time in Taiwan's - or China's - history "that the head of state has directly faced the people".

County and city mayors have wide powers over their districts. They exercise control over local police forces, grant licences and development licences and arbitrate environmental or labour disputes. This makes them the focus of intense contention among political and financial interests.

Of most relevance to the ruling party is the fact that mayors also oversee the administration of elections.

The KMT holds 13 mayorships. The main opposition Democratic Progressive party controls seven cities and counties. There is also one city run by a pro-DPP independent.

Further erosion could damage the KMT's hopes in elections next year for Taiwan provincial governor and for the mayors of the big Taipei and Kaohsiung municipalities.

In a blow to the KMT's fortunes yesterday, a senior member of the party defected to the opposition Chinese New Party, which was formed in August by a group of rebel KMT legislators.

Mr Hsu Li-ming, a veteran leader of the ruling party's conservative wing and a member of its central advisory committee, said he was joining the New Party because he was disgusted with rampant corruption.

On the campaign front, Mr Lee's longer-term aim seems to be his ambition to become Taiwan's first directly-elected president, says Mr Huang Hui-chen, executive director of the Institute for National Policy Research think-tank.

Mr Lee was elected indirectly in 1990 by the National Assembly to a six-year term. There are moves to submit a constitu-



Gymnasts entertain a crowd at an election rally in Taipei under the portrait of KMT candidate Tsai Sheng-pang

tional amendment to allow direct presidential elections before his term expires.

Despite previous denials about running for president, Mr Lee last week left the door open when he told the China Times newspaper: "It's not yet time to make a decision."

"If Lee wants to continue his reforms, he needs to firm up the KMT's control at the local level or else his control over the KMT itself may weaken," Mr Huang notes.

Mr Lee and the opposition DPP were often indirect allies in past confrontations with more conservative mainland-born KMT leaders.

The last powerful mainland-born leaders were sidelined by Mr Lee at the 14th KMT Congress in August. This now pits a Taiwanese KMT against a Taiwanese DPP, says Mr Huang.

Mr Lee's greatest risk on the

campaign trail is that he may wear out his welcome among the electorate which has indicated widespread approval of his moves to liberalise Taiwan's political regime.

"The main result of this campaign will be the disappearance of the Lee Teng-hui love-knot," says Mr Chao Shao-kang, convener of the New Party.

"Many voters forgive him for everything as he's the first Taiwanese president, but his dictatorial ways won't be tolerated forever," Mr Chao says.

Meanwhile the DPP is campaigning primarily on the clean and generally effective performance of its mayors. Like those of the New Party, DPP candidates have also pointed to a series of big cases of corruption or inefficiency, including delays and cost overruns of KMT-run Taipei city's mass transit system.

India and Pakistan to resume talks

By Shiraz Siddiqui in New Delhi

India and Pakistan are to resume talks on bilateral problems, including the status of the contentious Jammu and Kashmir, after a gap of nearly 15 months.

Mr J.N. Dixit and Mr Shah-ryar Khan, the foreign secretaries of India and Pakistan, agreed to meet in Islamabad from January 1-3, under an accord signed by the two countries in 1973 after Pakistan lost to India in a war over Bangladesh. The talks had been postponed for more than a year as

relations between the two neighbours reached their worst point in 20 years.

India has consistently held that Kashmir is a domestic dispute to be resolved internally, and has accused Pakistan of training and funding Kashmiri militants engaged in armed warfare in the Kashmir valley. Pakistan has denied the allegation and insists on interpreting the so-called Simla Agreement of 1972 in the light of a United Nations resolution of 1948 providing for an internationally supervised plebiscite through which Kashmiris could choose

between India and Pakistan.

An Indian foreign ministry official said that the recent peaceful resolution of the month-long stand-off between armed Kashmiri separatists and the Indian armed forces at Hazratbal, Kashmir's holiest shrine, and Islamabad's subsequent inability to move a resolution on the human rights issue at the UN general assembly paved the way for talks.

Both nations appear to be responding to US pressure to resolve the Kashmir dispute through talks.

Mr P.V. Narasimha Rao, the

Indian prime minister, had expressed India's readiness to resume a dialogue in his congratulatory message to Ms Benazir Bhutto, the newly elected Pakistani prime minister.

The Hindu right-wing Bharatiya Janata Party, India's largest opposition party, yesterday demanded that the ruling Congress government should convene a meeting of all Indian political parties before resuming talks with Pakistan. Mr Krishan Lal Sharma, the party spokesman, said Pakistan must be told that

India would not tolerate interference in its internal affairs, that Pakistan should stop funding infiltrators fighting a separatist war in the Kashmir valley, and that the issue should not be raised in international forums.

Officials on both sides are sceptical that the talks will resolve the Kashmir dispute which has hindered relations between the two countries since partition in 1947, and over which two wars have been fought. But they agree that the resumption of talks is "a step in the right direction".

Keating unlikely to testify before inquiry into newspaper ownership

By Nikkita Taft in Sydney

Australia's prime minister Paul Keating yesterday indicated he was unlikely to give evidence to a Senate committee which would look into foreign ownership of Australian newspapers. Approval for the new committee is expected later this week, after its terms of reference were tabled in parliament yesterday.

Under these, the committee would look into "the origin and basis for decisions in 1981 and 1993 to increase the permissible percentage of foreign ownership of newspapers" and "whether those decisions were influenced by considerations

relating to the content of newspapers including the requirement for "balanced coverage". It would also consider the effectiveness of Foreign Investment Review Board rules.

The committee would be made up of four senators from the ruling Labor party, four from the opposition, and one nominated by the minority Australian Democrats. It could request that people appear before it, but could not demand they give evidence.

The committee's formation has been spurred by disclosures that Mr Keating demanded more balanced coverage from the John Fairfax newspapers, including the Syd-

ney Morning Herald, Melbourne Age and Australian Financial Review, as a precondition to any increase in the stake held by Mr Conrad Black, the Canadian media tycoon.

The conversation between Mr Keating and Mr Black took place before the federal election. After the March election, the cabinet approved an increase from 15 to 25 per cent in Mr Black's interest.

But the prime minister, under attack over the Fairfax decision during parliamentary question time yesterday, told the opposition: "Listen, brother... I know my place in the world. I do not shun it before

senate committees."

Mr Keating defended the government's handling of the Fairfax issue, denying any impropriety had occurred, and accused Mr John Hewson, the opposition leader, of promising Mr Black a much larger stake.

Chances of passage this year of the government's contentious land rights legislation, to set up a system for dealing with native title claims, dwindled yesterday when the two Green party senators gave conditional support to a Senate inquiry into the package.

The government lacks a majority in the Senate, and minority parties hold the balance of power.

Guerrilla ministers ruled out in Cambodia

Prince Norodom Ranariddh, Cambodia's first prime minister, yesterday rejected as unconstitutional a suggestion by King Norodom Sihanouk, his father, that the Khmer Rouge guerrilla faction could be offered ministerial roles in government. Benter reports from Dey Eith, Cambodia.

"The constitution prevents us appointing any people not members of the parties which have members in parliament," Prince Ranariddh told Khmer Rouge defectors being inducted into the army. By failing to respond to government peace offers, the guerrillas ran the risk of disappearing.

But the guerrillas might be offered a role as special envoys to report on the sovereignty of Cambodia's common borders with Laos, Thailand and Vietnam, he added.

King Sihanouk earlier proposed to offer "acceptable" Khmer Rouge officials positions as co-ministers, co-deputy ministers, co-secretaries of state and advisers in the new coalition government led by Prince Ranariddh. The Cambodian constitution forbids appointment of non-elected people to parliament.

The Khmer Rouge, held responsible for the deaths of 1m Cambodians during the 1975-79 "killing fields" years, have sought an advisory role in government.

Seoul tough line could delay quick end to nuclear dispute

By John Burton in Seoul

South Korea has reiterated its influence in the negotiations to resolve the North Korean nuclear issue, but at a possible cost of delaying a quick solution to the dispute.

In his meeting with President Bill Clinton in Washington on Tuesday, South Korean president Kim Young-sam side-tracked a US proposal that would have suspended the joint Team Spirit military exercise in return for North Korea accepting the resumption of routine international nuclear inspections and exchanging

special envoys with Seoul to discuss nuclear issues.

Instead, the two leaders said the North would have to fulfil the two conditions before concessions would be made. The statement amounted to a rejection of a recent North Korean proposal that Washington and Pyongyang make simultaneous compromises as part of a package solution.

South Korea has been concerned about recent US press reports that Washington was seriously considering the North Korean offer, which conflicts with Seoul's position that Pyongyang has to make the

first concession. The unease felt by South Korean officials over the North's proposal was that it would lead to direct negotiations between Pyongyang and Washington, leaving Seoul on the sidelines.

The main worry expressed by South Korean officials was that the talks between Washington and Pyongyang would focus on inspections conducted by the International Atomic Energy Agency (IAEA), ignoring the issue of inter-Korean nuclear inspections.

Mutual nuclear inspections between the two Koreas lie at

the heart of the present dispute. Seoul demanded last year that North Korea accept inspections of suspected nuclear facilities in compliance with a bilateral non-nuclear treaty that North and South Korea signed in December 1991. Pyongyang refused the

request, explaining the treaty did not support this demand.

In response, Seoul sought to press Pyongyang by asking Washington to resume the annual US-South Korean Team Spirit military exercise this year, South Korean foreign ministry officials say.

Team Spirit had been suspended in 1992 as a goodwill gesture by Washington in response to North Korea's signing of the non-nuclear treaty with the South. Shortly after, Pyongyang agreed to accept routine IAEA inspections of its nuclear facilities. But last autumn's decision to resume

Team Spirit angered Pyongyang.

Last March, it threatened to pull out of the nuclear non-proliferation treaty and stop IAEA inspections, citing resumption of Team Spirit as one reason, and protesting at an IAEA demand that it accept inspections of undeclared facilities.

Some analysts believe North Korea refused the IAEA request for special inspections because it would have created a precedent for accepting similar inspections by South Korea, the issue at the centre of their disagreements over mutual inspections.

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Figures point to accelerating pace of growth

US factory orders jump in October

By Michael Proulx
in Washington

Reports of a sharp rise in factory orders yesterday provided further confirmation that the pace of US economic growth is accelerating.

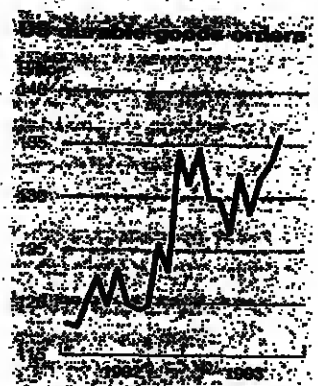
The Commerce Department said new orders for durable goods rose 2 per cent last month and 8.7 per cent in the year to October. This was broadly in line with analysts' projections and followed reports of a big rise in the Purchasing Managers' Index.

Mr Ron Brown, commerce secretary, noted that orders rose in eight out of 10 leading industrial sectors, indicating the recovery in manufacturing was broadly based.

Increases in orders for capital goods indicated the economy's productive capacity was rising in line with higher consumer demand.

The rise in orders occurred in spite of an 11.6 per cent fall in defence orders last month, reflecting continuing budget retrenchment at the Pentagon.

Much of the strength in the civilian economy was concentrated in the volatile transport sector, where orders rose 5.5 per cent between September and October.



Aircraft orders rose an erratic 48 per cent.

However, excluding both defence and transport, orders rose a respectable 2 per cent last month - a sign that recent falls in long-term interest rates have increased demand for durable goods.

Orders for non-defence capital goods, excluding aircraft - seen as a guide to civilian

investment trends - rose 1.5 per cent in October, the eighth increase in nine months.

Many forecasters are predicting growth at an annual rate of 4 per cent or higher in the current quarter. But the growth rate is widely expected to moderate early next year because consumer spending has run ahead of personal incomes.

The Treasury is moving its Savings Bonds Division into the Bureau of Public Debt and is eliminating several political appointments from the US Mint, Mr Lloyd Bentsen, the Treasury secretary, said yesterday, AP-DJ adds.

The restructuring steps are aimed at cutting bureaucracy and improving customer service, Mr Bentsen said in a press release.

"In both cases, we looked at the environment we're operating in and we said it's time to change. What made sense a long time ago doesn't make sense now."

Incorporating the Savings Bonds division into the Bureau of Public Debt will help improve the marketing strategy for bonds, he said.

TV decency rules likely to be dropped

By Jurek Martin in Washington

The US government may not set rules barring the televising of "indecent" programmes between dawn and midnight, a federal appeals court has ruled.

Such a prohibition, promulgated by the Federal Communications Commission last year on the instructions of Congress in order to protect children, violates the

Constitution's First Amendment right of adults to view such material, according to the unanimous verdict of the DC-based court.

The bench's three members, Chief Judge Abner Mikva and Judges Patricia Wald and Harry Edwards - all appointed by President Jimmy Carter - are considered to be among the most liberal interpreters of the constitution. Last week it struck down the military's ban on homosexuals because it in-

fringed individual constitutional rights of adults in this case was the question of obscene, but not violent, programming. The main commercial networks have a system giving early warning of materials reckoned to contain excessive violence.

But about 60 per cent of US households now pay for cable television service, a lot of which is devoted to both violent and suggestive programming. However, the courts

have been reluctant to intervene with cable because its subscribers exercise choice in buying their programmes.

The Clinton administration, keen not to appear soft on obscenity, may appeal on this latest judgment to the Supreme Court. Ms Janet Reno, the attorney general, has frequently spoken out against the content of TV programming and is under instructions from the president to toughen the child pornography laws.

Brazilian finance minister set to quit race for presidency

By Angus Foster in São Paulo

Mr Fernando Henrique Cardoso, Brazil's finance minister, has signalled his withdrawal as a possible candidate in next year's presidential elections by promising to remain as a minister instead.

Finance ministry officials say Mr Cardoso has written to President Itamar Franco saying he will not run in presidential elections next October.

Technically, Mr Cardoso could change his mind before April 2, the deadline for candidates to announce they will run. But analysts said such a reversal would be politically damaging and provide an easy target for opponents.

Mr Cardoso's term as a senator runs out next year and he had been widely seen as a presidential hopeful. As a former academic and foreign minister, he has strong support from foreign investors. However, his intellectualism was seen as a barrier to winning popular support. In opinion polls released at the weekend Mr Cardoso had only 7 per cent support.

His withdrawal from the presidential race should improve the now slight chances of a successful economic reform package being approved before the elections. The government needs congressional support for its 1994 budget, due to be announced later this week, and other structural changes aimed at tackling inflation of close to 2,000 per cent a year. But some

important political groups had been opposed to the measures because they feared a successful economic reform would boost Mr Cardoso's election chances.

Mr Cardoso's letter suggests he needs more time to implement the reform measures, which involve spending cuts and are therefore likely to be difficult to implement in an election year.

According to the polls, Mr Luiz Inacio Lula da Silva of the left-wing Workers Party (PT) is the presidential favourite with 31 per cent, while his nearest probable rival is the right-wing mayor of São Paulo, Mr Paulo Maluf, with 12 per cent. However, analysts said these ratings could change considerably over the next 11 months.



British writer Salman Rushdie (left), the subject of Iranian death threats, embraces Alan Lightman of Massachusetts Institute of Technology after being named honorary visiting professor

Mexico to loosen curbs on labour

By Oamian Fraser
in Mexico City

The Mexican government is to reform the federal labour law in an effort to increase worker productivity.

The new law would scrap the seniority clause that restricts the ability of some companies to promote workers. It would also speed resolution of disputes between management and unions by replacing the current labour conciliation and arbitration panel with more streamlined tribunals.

The president has also sent Congress new laws to allow foreigners to operate trucks and buses in Mexico, and would permit foreign investment in maritime transport. The law also extends the maximum concession for private toll roads to 50 years.

"What we are seeing are the internal changes that are necessary to compete under the

North American Free Trade Agreement," says Mr Mario Dehesa, an economist with Grupo Financiero Serfin. "We cannot compete with our hands tied behind our backs."

Mexico's labour arbitration panels can take two years to resolve cases, which is usually not in the interest of either the workers or management. The panels are heavily influenced by the government, which can generally resolve high profile labour disputes as it wishes.

The proposed reforms to the labour law will be sent to Congress before December 15, a senior government official said. They were welcomed by Mexico's business community, which sees the complicated and detailed regulations as an obstacle to productivity. Labour unions are believed to be opposed to some of the changes.

Washington life wears out Clinton aides

Thanksgiving is the ultimate American holiday because far more than any other, including Christmas, it reunites families. The Wednesday before and the Sunday after it are the year's busiest travel days. For 96 hours, the country pretty much shuts down.

Even the hyperactive President Bill Clinton and his family are ensconced for today's holiday in Camp David, the presidential retreat in Maryland's Catoctin Mountains. He is said not to like very much. Before leaving he shared the

Two members of the team are going home for Thanksgiving and staying, reports Jurek Martin

traditional turkey at a Washington church hall providing free dinners for those without homes or families to go to.

There is a particular poignancy at this Thanksgiving for Mr Clinton and those who have spent the last two years with him. For he has just lost two senior members of his team - Mr Howard Paster, White House head of congressional liaison, and Mr Roy Neel, deputy chief of the White House staff - who have declared that they want to spend more time with their families than one turkey dinner might allow.

It might seem odd that they should go after the great Mafia triumph for which both, with Mr Paster particularly visible, worked so hard. But for once this classic political excuse may be valid and no one in Washington, an eternally suspicious town, was seriously questioning it this week.

Mr Paster put it best. "There are no recesses or weekends. The beeper and the phone respect no private time. And we have added a new standard

of intensity." For those with children and, as in his case, a spouse with a career, balancing the priorities of life can get skewed, as the suicide of Vincent Foster, Mr Clinton's old friend and legal counsel, horribly demonstrated this summer.

Mr Clinton, like President Jimmy Carter before him, has publicly urged his staff to take more time off, but he takes little himself - 10 days on Cape Cod this summer and regular escapes of golf notwithstanding - and nor does his highly professional wife, Hillary. They both reckon they have a lot to do and not much time to do it in.

Similar motivation inspires the White House staff, many very young and more than willing, given the chance of a lifetime, to put in the seven-day weeks, 15-hour days, that have become routine. Most of their favourite bars and cafes are those that stay open very late and their attendance at private dinner parties around town can never be guaranteed.

It may be true that their lives have not been made easier by unsophisticated technology in the White House itself and by successive staff reorganisations after early difficulties. Mr Neel, long an aide to now Vice President Al Gore, was transferred in the summer to help Mr Mack McLarty, chief of staff, while a few internal feuds were ruffled by the arrival at the same time of Mr David Gergen, the ex-Republican political spinner. But the Clinton White House is not conspicuously riven by competing internal camps.

Mr Paster and Mr Neel, both Washington veterans, knew what they were letting themselves in for and ultimately got out, without apparent regrets. Yet they will be replaced by people of comparable experience, like Mr Harold Ickes, the experienced New York operator whose own political lineage includes a father who was FDR's interior secretary.

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NEWS: WORLD TRADE

'We got nothing we wanted in Washington' - Balladur

French PM frustrated in farm talks

By David Buchanan in Paris

French Prime Minister Edouard Balladur yesterday told a meeting of more than 400 of his conservative government's backbench MPs that "we have obtained nothing... of what we have asked" from this week's Washington talks on Gatt.

He spoke after his trade minister, Mr Gérard Longuet, was briefed on the outcome of the Washington talks by Sir Leon Brittan, Europe's Gatt negotiator, who on his return from the US yesterday stopped over at Paris airport.

Taking a robust line in front of his parliamentary majority, Mr Balladur said he would not respond to American calls that he should show "leadership" in the Gatt talks if that meant abandoning French national interests. The prime minister's pessimism was echoed yesterday by the French Foreign Ministry which said, that "at this stage, there is no sign of progress" on the main Gatt issues dividing the US and the European Union.

Equally, however, there was no suggestion from Paris that

accommodation with the US on Gatt was doomed. Mr Longuet noted that Sir Leon had left some of his officials behind in Washington to continue talks, and that France's concern was to stay in permanent contact with the negotiators.

In the end-game under way in the Uruguay Round, France is increasingly frustrated at not being able to play a direct part on such issues as agriculture and audiovisual broadcasting, where it has taken a particularly tough line. Officials say they are confident Sir Leon will advise them and other EU governments on the state of play, but complained that Mr Longuet did not get this from the European commissioner yesterday.

In view of the December 15 deadline which France now implicitly accepts, Mr Balladur said yesterday he would want to know "the state of things in the first days of December" so he could consult his ministers, his coalition and European partners. Gatt will top the agenda at next week's Franco-German summit in Bonn, which will precede a EU foreign ministers' meeting.



US trade representative Mickey Kantor gestures towards European trade commissioner Sir Leon Brittan at a press conference after US-EU trade talks in Washington

US Congress set to press on with retaliatory financial services law

By George Graham in Washington

The US Congress is expected to press ahead next year with legislation authorising retaliatory trade measures in the financial services sector, even if the immediate need for the bill as a negotiating weapon in the Gatt talks has disappeared by then.

The Treasury had hoped that the progress of the "Fair Trade in Financial Services" bill through Congress would increase their leverage to persuade countries such as Japan, South Korea, Indonesia, the Philippines and Brazil to improve their offers to increase access to their financial markets as the Uruguay Round of Gatt negotiations draws to a close.

The bill would allow the Treasury to restrict the expansion of banks and securities companies from countries which do not offer equal access to American businesses.

Treasury officials say they made some headway in recent visits to some of these countries, but are wary of predicting the outcome of the talks on financial services, which remains, from the US perspective, one of the biggest stumbling blocks to an overall Gatt agreement.

Although the Senate banking committee's attempt to agree on the bill's language was held up by an unrelated dispute on legislation to allow US banks to open branches outside their home states, in the House of Representatives the subcommittee on international development, finance and trade completed work on a draft.

The House has in the past been the most difficult obstacle to passage of similar retaliatory legislation, largely because of differences of opinion between the banking, energy and commerce and ways and means committees. Congressional aides expect, however, that this time these divergences will be smoothed out,

enabling the bill to pass early next year.

These aides say that whether or not the Gatt talks are completed by the US deadline of December 15, the legislation will be needed.

In the event of a successful Gatt deal, it would be required to enforce the two-tier approach that US negotiators are seeking to apply in the financial services area, discriminating against "free riders" which have not opened their markets.

Other aides caution, however, that the language of the bill, which has been carefully wrought to exclude the European Union from any retaliation threat, is so closely tied to the Gatt talks that it would need to be completely reworked in the event of a breakdown, or if the US fails to win the exemption it is seeking in the financial services sector from the obligation to apply the most favoured nation principle.

Germany and UK share Gatt worry

By Judy Dempsey in Bonn

Germany and Britain are concerned that failure to meet the December 15 deadline for the Uruguay Round of international trade talks will let the US distance itself further from Europe, diplomats said yesterday. Speaking on the eve of the annual Anglo-German summit, which will take place in Bonn, officials said the collapse of the Uruguay Round, whose deadline is December 15, would be "catastrophic".

"Germany and Britain are so dependent on exports. It would

be very damaging if there was no agreement," a British official said. But a senior German official went further in highlighting what it would mean for Europe as a whole.

"The case of Nafta, and the talks in Seattle with Asian countries last week, was the first time in which Europe was not involved. This is a signal. Despite what is said in public to the media, the US and Canada are focusing on Asia, and shifting away from Europe."

The official added that while the Uruguay Round will be "very much top on the agenda"

in the one-day summit between Chancellor Helmut Kohl of Germany and Mr John Major, British prime minister, parallel talks between trade, defence and foreign ministers will focus on social, bilateral and security issues. These include:

- Ways to tackle unemployment in the European Union.
- British officials implied the Delors white paper on reducing unemployment was "too Keynesian", adding that they would prefer to seek more emphasis on training, flexibility and innovation.
- Steel subsidies. German offi-

cials are angry about Britain's continuing opposition to proposed federal subsidies for Ekostahl, eastern Germany's largest steel mill on the grounds that the modernisation of the mill will contribute to over-capacity in the steel sector.

● Security, particularly ways in which to bring the countries of eastern Europe - and Russia - closer to Nato. German officials yesterday said there is still disagreement in Bonn about how to define, let alone extend security guarantees to eastern Europe.

Negotiators down in the dumps over US draft

Washington set to take on the world in clash over anti-dumping proposals, writes David Dodwell in Geneva

America's Thanksgiving gift to trade negotiators in Geneva is expected to be an unwelcome set of proposals to reform rules disciplining international dumping.

A clash over anti-dumping rules has long been anticipated by negotiators in the Uruguay round of talks on global trade liberalisation. Five separate texts have been presented in six years, and all have been rejected. The draft imposed at the end of 1991 was an arbitrated text, never agreed.

At the heart of the conflict has been a fundamental difference between the US - as a principal user of dumping laws and a fierce defender of its national prerogatives in this area - and the rest of the world, which at one time or another has felt victimised by what is seen as arbitrary use of unfair rules which lead with near-certainty to the conclusion that dumping has occurred.

But in the calm before the storm that is expected to erupt when the US list of amendments lands on desks across

Geneva, officials recognise that something will have to be done to accommodate US concerns that the present text unreasonably weakens its power to act. "I pray it will be the minimum," one said.

From January this year, the US flagged its intention to challenge the existing draft text, in the teeth of near-universal opposition from the other 114 countries negotiating the Uruguay Round.

"The danger is great," one negotiator said. "The US appears quite prepared to pull the plug on this issue. This would pull down the agreement we have on subsidies, which in turn would pull down our agreement on farm trade. The pack of cards would collapse."

Most countries see the growing use of anti-dumping laws - duties and fines against imports that are alleged to be sold at prices below those charged in a domestic market - as creeping protectionism.

As customs barriers have fallen over the past decades, so dumping actions appear to have become the protection-

ANTI-DUMPING: CASES INITIATED (JULY TO JUNE)											
	83-84	84-85	85-86	86-87	87-88	88-89	89-90	90-91	91-92	92-93	
Australia	70	63	54	40	20	18	23	48	78	61	
Canada	26	35	27	24	20	14	15	12	18	36	
EU	33	34	22	17	30	29	18	15	23	33	
US	48	61	63	41	31	25	24	52	62	78	
Other developed countries	1	0	2	5	8	12	5	9	21	8	
Developing countries	0	0	3	4	13	14	14	41	39	38	
TOTAL	178	196	172	131	128	113	98	175	237	254	

Source: Gatt

ist's weapon of first resort.

According to a recent World Bank study, average tariffs in the US manufactured goods sector would be 23 per cent today, compared with a nominal level of less than 6 per cent, if they were adjusted to account for the impact of dumping duties on imported steel, textiles and cars - the industries most affected.

As the number of dumping actions initiated has risen steeply since 1988, so an increasing number of countries have introduced their own anti-dumping laws - and have proven willing to use them.

India and Japan initiated actions in 1992 for the first time.

Developing countries, which until 1985 had never initiated dumping action, have initiated around 40 a year for the past three years. Significantly, the US was the target of 20 dumping actions in the year to June 1993 - overtaking Japan (the target of just 13 actions), which is so often seen by the US as a leading "dumper".

In January this year, Mrs Carla Hills, the outgoing US trade representative, asked the International Trade Commission to study the net impact of dumping actions on US industry.

Her successor, Mr Mickey Kantor, has since reversed the request, but not without

prompting questions on whether the higher import costs arising from dumping duties damage the competitiveness of US companies.

This has not prevented supporters of domestic anti-dumping policy from mounting a fierce defence of the existing regime, and an effective campaign pressing the US administration to lengthen its list of proposed changes to the intended Uruguay Round agreement.

In the House Ways and Means committee three weeks ago, Mr Eric Galt, a leading Bush administration negotiator on the Uruguay Round anti-dumping text, attacked the draft as "highly political",

and "not a balanced or well-reasoned document".

He detailed the need for various amendments, which seem likely to appear in the list presented to negotiators today. These include:

- Scope and standard of review: the US fears the draft will allow Gatt panels to revisit the facts presented in a domestic dumping inquiry, rather than examine whether laws had been fairly applied.
- Circumvention: the US says the draft will allow offending countries to side-step dumping duties by shifting production to other countries. It wants the power to put duties on "like goods" being exported to the US from third countries without fresh investigation.
- Sunset: the proposed draft says a dumping duty will expire after five years unless a review shows dumping is still occurring. The US objects to the need for fresh proof of dumping. Over 30 of the 288 dumping duties currently in effect in the US have been in place for more than 20 years.
- Start-up: particularly relevant to high-technology industries, the US objects to rules which would allow companies to charge prices that are below true production cost during the start-up period before full economies of scale have been achieved. It wants the length of start-up to be defined.
- De minimis: the Uruguay Round draft would block dumping inquiries if the effective dumping margin were less than 2 per cent, or if the volume of dumped product - and injury to domestic competitors - is "negligible", defined as less than 1 per cent of the domestic market.
- Standing: only governments are entitled to bring a dispute to Gatt under the present draft. The US wants non-government bodies to be able to bring actions - notably trade unions or environmental groups.

The list of proposed amendments was promised for last Wednesday. Successive postponements have frustrated other negotiators, and added to the prickly array of outstanding issues that must be resolved by December 15 if a Uruguay Round package is to be completed successfully.

Japan to offer rice compromise

By Emiko Torazono in Tokyo

Japan is likely to present its official proposal to open its rice markets after the US and the EU manage to reach an accord on agriculture on the Uruguay Round.

A senior Japanese government official told Japanese reporters yesterday: "Japan is involved in negotiations to prepare a plan it deems acceptable."

Until now, the government has been reluctant to reveal that it was under talks over the lifting of its rice ban.

Japan is likely to put forward officially a compromise plan under which it will accept rice imports of 4 to 8 per cent of its domestic consumption for six years, and reach a decision over liberalisation of its rice market in 1998.

The government wants to appease domestic opposition to opening the rice market by leaving a decision up in the air, and it is unclear whether such a proposal would be acceptable to its trade partners.

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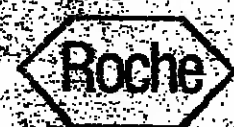
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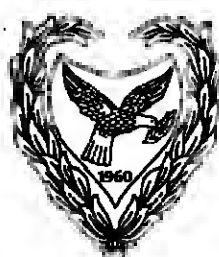


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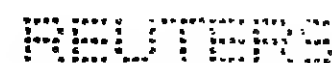
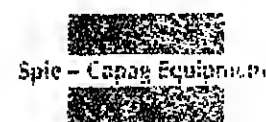
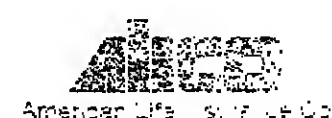
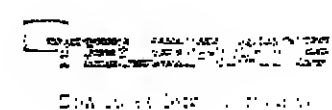
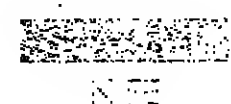
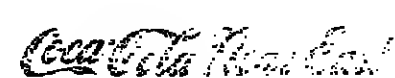
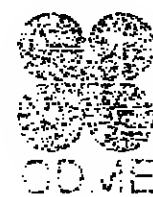
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Unionist veto hangs over NI peace move

By Philip Stephens and David Owen

The Ulster Unionist leader Mr James Molyneux urged Mr John Major yesterday to drop his search for a comprehensive constitutional settlement for Northern Ireland in favour of a new Ulster assembly.

Mr Molyneux, who holds an effective veto over the prime minister's efforts, said the groundwork for all-party talks on devolved government could be completed in two weeks.

Resumed talks should focus on the creation of the 65-seat legislative assembly - the model for which was drawn up in abortive talks last year.

In an interview with the Financial Times, Mr Molyneux said there was "a fair chance" that Mr Michael Aherne, the Northern Ireland minister, would be able "within a week or two" to identify common ground between the province's political parties.

Despite the latest setbacks, Downing Street signalled Mr Major's determination to press ahead with his efforts to find a settlement by establishing a group of senior ministers to oversee policy.

But Mr Molyneux said the Major-Reynolds initiative was doomed to failure. Dublin would only give up its consti-

tutional claim to Northern Ireland in return for "something which has the same effect as the territorial claim."

Asked if they should break off negotiations, he said: "It's futile, isn't it, because unless they could get agreement to something which was as significant and acceptable to the IRA as joint authority leading on to Irish unity then it is not going to make any difference to the so-called peace process."

He said Dublin's proposals would put in place "a structure that would bring about the unification of the national territory." The draft paper had "all the designs and a good many of the paragraphs" of the initiative launched by Mr John Hume, the leader of the mainly Catholic SDLP, and Mr Gerry Adams, president of Sinn Féin.

He described Hume-Adams as a "fendishly clever operation" to secure Irish unification. A large consignment of weapons and explosives bound for Ulster terrorists was seized by Customs officers at Teesport yesterday. The loyalist Ulster Volunteer Force admitted that the shipment had been destined for them.

The shipment, from Poland, contained more than 300 AKM assault rifles, and was the biggest haul of weapons destined for terrorists seized in Britain.

'Phoney war' heralds start of ITV restructuring

By Raymond Snoddy

Britain's National Heritage secretary Mr Peter Brooke yesterday launched a "phoney war" for the future of independent television by proposing that each ITV company can own two large regional licences - but not yet.

The big potential ITV predators set on their hands and waited for the first move

in the restructuring of ITV. The surprising lack of activity, with most ITV shares moving up only a few pence, was caused by the need for both Houses of parliament to approve the changes and investor fears that many ITV companies are already highly priced following takeover speculation.

In London the weekday and the weekend broadcasting

licence must continue to be held by two separate companies.

Arguments that Scottish Television and HTV, the ITV company for Wales and the West, could be protected from takeover from other large ITV companies were rejected.

The government also rejected pleas from newspaper publishers to be able to own more than 20 per cent of an

ITV company but promised to keep both ownership restrictions under review.

A number of ITV companies issued bullish statements. Mr Leslie Hill, chairman of Central, whose share price shot up from 285p to 217p, said he was confident that the company would now be able to achieve its ambition of becoming one of Britain's leading international players.

Carlton, which already owns 20 per cent of Central is widely expected to pounce when the time is right.

Meridian Television said the changes would allow the company to expand in the broadcasting market. Meridian's natural target is Anglia Television - if the price is not too high.

Granada, which owns 20 per cent of London Weekend Television, is expected eventually

to launch a takeover bid against the London company. The fact that the government has decided to set a maximum limit of two licences makes it very unlikely that anyone will tackle financially troubled Yorkshire-Tynes Tees, or acquire any of the five smallest companies such as Grampian or Border. By doing so they would forfeit their chance of acquiring a large licence.



Fourteen bottles of Scotch whisky, part of the cargo of the SS Politician, which ran aground in the Outer Hebrides off Scotland in 1941, sold for £11,483 at Christie's in Glasgow. The wreck of the Politician inspired Sir Compton Mackenzie's novel Whisky Galore. The 1949 film, pictured above, immortalised the story of the thirsty islanders who plundered the wreck and threatened officialdom.

BT cuts cost of fraud calls to head off rivals

By John Gapper, Banking Editor

British Telecom has reached a deal with banks and credit card companies to halve the cost of electronic fraud checks on card purchases. BT was warned that it might otherwise lose business to Mercury or US telecommunications companies.

Mr Peter Macleod, BT's sales director, said yesterday that BT believed it could reach similar deals discounting price in return for higher volume in other corporate markets. He said BT had responded rationally to competitive pressures.

BT has agreed a new pricing structure with credit and debit card companies for "on-line" verification of transactions that cuts prices in return for higher volumes. It could save banks a total of about £26m annually within three years.

The more on-line checks made by a bank, the less it will be charged per call. Seven banks process transactions, and they were in talks along with the Visa, Switch, Diners Club, American Express and Mastercard groups.

BT said that it could not disclose the new prices because individual contracts were now being discussed with banks. But banks said the cost per call would fall to between 2.5p and 3.5p next year, and to between 1.5p and 2.5p by 1995.

BT has established a new network called 0800 Gateway Dial to handle the calls. "I

think we have stolen a march on AT&T (the US telephone company) and Mercury. No doubt they will respond in due course," said Mr Macleod.

Mr Mervyn Gibson, Visa's director of interbank processing, said banks had co-operated because of the growth in card fraud. "That galvanised them. If it had not been for fraud, they would have just haggled by themselves," he said.

About 200m checks are expected to be carried out this year, which is only about a fifth of card transactions. Banks think the share of transactions checked could rise to 45 per cent by 1995, giving an annual volume of 1bn calls.

Banks have blamed the high costs of calls for the fact that relatively few purchases have been checked up to now. Some 90 per cent of card transactions are authorised in the US, and all Visa purchases there will be checked from next May.

BT faces competition for domestic corporate services from Mercury, and AT&T is also attempting to gain a licence to compete in the UK.

Banks have become worried about fraud in recent years because it has grown rapidly. Fraud cost the industry about £16m last year, but the figure is expected to fall at least 10 per cent this year because of added security. BT is currently negotiating with banks, and has offered to introduce lower charges in time for Christmas when about 20m transactions are authorised.

Groundsmmen told how to deal with diehard fans

By Jim Kelly in London and Frank McGuire in New York

The passionate devotion of English football fans to their clubs appears to have survived the national team's exit from the World Cup. In fact it appears to survive beyond the grave.

An article in FC, the trade magazine for football clubs, reveals that large numbers of supporters are having their cremation ashes spread on the pitch at their local club.

The discouraging news for groundsmen is that this can be had for the grass. A useful tip is to sprinkle ashes upwind, away from the playing area.

David Conn, the author, believes that he has discovered a mathematical relationship between a club's average attendance and the number of fans seeking immortality on the field.

Manchester United, for example, attract 40,000 fans to home games and estimate that between 20 and 25 people have their ashes sprinkled at Old Trafford every year.

In contrast Bolton Wanderers attract 8,000 and about four times a year a fan is allowed to cast caution to the wind at Dean Court.

Mr Conn concludes that every 2,000 regular supporters produces one a year who seeks a more permanent

relationship with their favourite club than a Saturday afternoon visit.

Liverpool FC says, tries not to refuse any requests but adds that space is running out. Arsenal does not like scatterings but allows urn burials on the sidelines.

At Manchester United the sprinkling is accompanied by a service. At Manchester City relatives are welcome to return to pay their respects at any time.

Paris St Germain, current leaders of the French First Division, can recall only one request from a fan asking if he could have his ashes spread on the pitch. He never rang back but

the club hopes he is still alive.

In the US, the devotion of baseball fans does not yet seem to extend to the hereafter. Mr Rich Levin, a spokesman for Major League Baseball, the organisation representing the 28 top professional teams, said he had never heard of such a request.

Jay Horowitz, director of media relations for the New York Mets, said that, in his 15 years with the club, no supporter had asked for his remains to be scattered on the field at Shea Stadium.

But not everyone feels it is necessary to ask permission. Last month, when the friends and family of a

deceased Boston Red Sox fan decided to comply with their loved one's request to have his ashes scattered at Fenway Park, they simply joined a guided tour of the stadium, a shrine of America's national pastime.

Each of them, according to the Boston Globe, carried some ashes in their pockets and gradually sprinkled his remains in the dugouts, in the stands, in the locker rooms, even in the bathroom.

Last April, on the opening day of the season at hallowed Wrigley Field in Chicago, a Cub fan sprinkled the ashes of his late cat, Cubby, over the wall near the bullpen.



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Jeep Grand Cherokee

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"-----"

CHRYSLER INTERNATIONAL

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think that the Vision is the perfect addition to Chrysler's family of distinctive vehicles. And clearly, we're not the only ones who think so.

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NEWS: UK

Security services face scrutiny over spending

By John Willman,
Public Policy Editor

Next week's Budget will for the first time include details of the spending incurred by the UK's intelligence and security services, the government announced yesterday.

The move was disclosed with the publication of the Intelligence Services Bill containing measures to open Britain's secret services to scrutiny by a committee of six parliamentarians.

In his first appearance at a press conference, Sir Colin McColl, the head of the Secret Intelligence Service (SIS), said that he welcomed greater openness about the service's work in gathering intelligence overseas. It was important for his staff and for people who helped them to know that the government remained committed to the service after the end of the cold war.

However, Sir Colin said that he would prefer not to take a higher public profile, or have his photograph

published in the same way as Mrs Stella Rimington, head of the Security Service (MI5) which is responsible for counter-intelligence work inside the UK.

"When the Central Intelligence Agency went open in the 1970s, it worried a lot of their people. I want to send our people a signal that we are not going to open everything up," he said.

Public expenditure plans for the next three years will include estimates of the aggregate budget for

MI5, MI6 and Government Communications Headquarters, the electronic eavesdropping organisation based at Cheltenham. Separate figures will not be published in case this alerts opponents to shifts in emphasis. For the first time, the services' budgets will be open to scrutiny by the National Audit Office, parliament's financial watchdog.

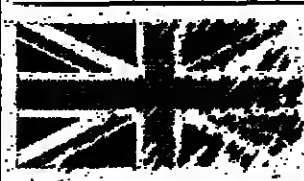
The new Intelligence and Security Committee will be appointed by the prime minister from among MPs and peers, following consultation with the

leader of the opposition. It will examine the expenditure, administration and policy of the services, but not operational matters.

The committee will present an annual report to the prime minister which will be laid before parliament.

All three services will be subject to similar requirements for obtaining warrants to enter or interfere with property or intercept communications. A new 'commissioner' will review warrants and authorisations and report annually to parliament.

Britain in brief



Valleys aid plan 'failed' to save jobs

The value of the initiative launched by the government in 1988 to regenerate the south Wales valleys is cast into doubt by a report.

It shows manufacturing employment in the area has fallen faster than in Wales as a whole and that for every factory opened, almost two have closed. The first five years of the programme saw public funding by the government and European Community of £770m. A second five-year programme was launched in April with grants increased to £850m a year.

Data code not used by 30%

An estimated 200,000 to 250,000 computer or data users should have registered with the Data Protection Register under the terms of the Data Protection Act but only 150,000 have done so. This means that a third of data users may be using personal information illegally, Mr Eric Howe, the Data Protection Registrar told a select parliamentary committee of public accounts. The Act requires those who hold information about people to register details of their activities with the registrar. Failure to do so can result in a fine of £5,000 in lower courts and an unlimited fine in higher courts. The Act also gives individuals the right to examine data held about them in a computer system.

New approach to treat Aids

A possible new approach to Aids treatment has emerged from laboratory tests at St Bartholomew's Hospital, London, of a drug being developed for cancer. Scotia, a pharmaceutical company, said that its anti-cancer compound EF13 killed white blood cells

infected with HIV. The drug did not harm uninfected cells; indeed it made them more resistant to future HIV infection. The next stage will be to organise clinical trials for EF13 as an Aids drug, which could take several years. EF13 is one of many candidate drugs showing activity against HIV in the test tube.

Creditors to get 90% back

Investors and creditors of Edington, the Manchester merchant bank which went into administration in April 1991, are likely to get more than 90 per cent of their money back. Mr Philip Ramsbottom, joint administrator and head of corporate recovery at KPMG Peat Marwick's Manchester office, will pay another 11p in the pound before the end of this month. The distribution, worth £3.1m, is the fourth, and brings the total paid so far to £24.2m, or 85p in the pound.

Steel complaint against Europe

The British steel industry could collapse with the loss of up to 120,000 jobs if government action is not taken against other European countries who heavily subsidise their own steel industries, a conference of 24 local authorities in steel producing areas were told. "We are the mugs of Europe", said Mr Keith Brookman, general secretary of ISTC steel union.

UK carriers lobby on VAT

British Airways and British Midland Airways, the two leading UK carriers, showed a rare common front to lobby MPs at Westminster against the threat of the introduction of value added tax on domestic UK air travel in next week's budget. Sir Colin Marshall, BA's chairman, and Sir Michael Bishop, BMA's chairman, warned that VAT on air fares would have "disastrous and harmful effects" by undermining the current fragile recovery in the industry. They claimed VAT would add around £40 to the typical return business fare and £20 to a typical promotional return leisure ticket.

Iraq exports 'had lower priority' official says

By Richard Donkin

The senior government official responsible for Britain's export controls prior to the Gulf War admitted yesterday he was more concerned with the antiquities trade than equipment used to build up Iraq's military regime.

Mr Eric Beston, head of the Department of Trade and Industry's export control branch from 1985 to 1990, said he had greater priorities than exports to Iraq.

Much more of his time, he told the Scott Inquiry into arms for Iraq, was taken up on antiquities and heritage issues that involved "large expensive things owned by rich and powerful people."

He said: "Throughout this

period there were what, at the time, seemed much bigger issues."

Earlier, the hearing was told that officials who could have intervened to stop machine tool exports to Iraq were barred from seeing vital intelligence material because of delays which occurred in security vetting.

In some cases, according to Mr Beston, it took as much as seven months to carry out positive vetting on officers who needed access to security reports.

Mr Beston, who did have security clearance, was unable to explain why he had not seen crucial intelligence documents that outlined the munitions use of three proposed machine tool exports for Iraq.

Mr Beston said that not all of his officials would have been able to see the report.

He told the inquiry that one of his senior officers, Mr Tony Steadman, had not had access since his positive vetting was not completed until the January after he joined the department in May 1987.

Lord Justice Scott suggested that, given that export licence applications for Iraq had been in the system since May 1987, it was not clear to him that the intelligence report would have caused alarm in the DTI.

He said: "It set off no alarm bell at all in your department. Your department, so far as I can see, would have done nothing had not defence intelligence on January 6th required action to be taken on it."

Mugging cover for tourists

By Michael Skapinker, Leisure Industries Correspondent

Attacks on British holidaymakers in Florida and France have persuaded Accident & General that it is time to introduce an insurance policy compensating travellers who are mugged.

The policy, which the company says is the first to offer such compensation, is being sold through the National Association of Independent Travel Agents, whose 350 members have over 600 retail outlets.

Benefit is only payable to victims who end up in hospital,

who can claim £100 for every 24-hour stay, up to a maximum of £1,000, according to Accident & General. Claimants will have to provide a police report proving they were attacked.

Accident & General said many travel insurance companies offered payments to holidaymakers who ended up in hospital. The mugging cover differed from these in that the compensation offered was higher.

If Accident & General clients are hospitalised due to illness or accident, they can usually claim only £10 a day up to a maximum of £300.

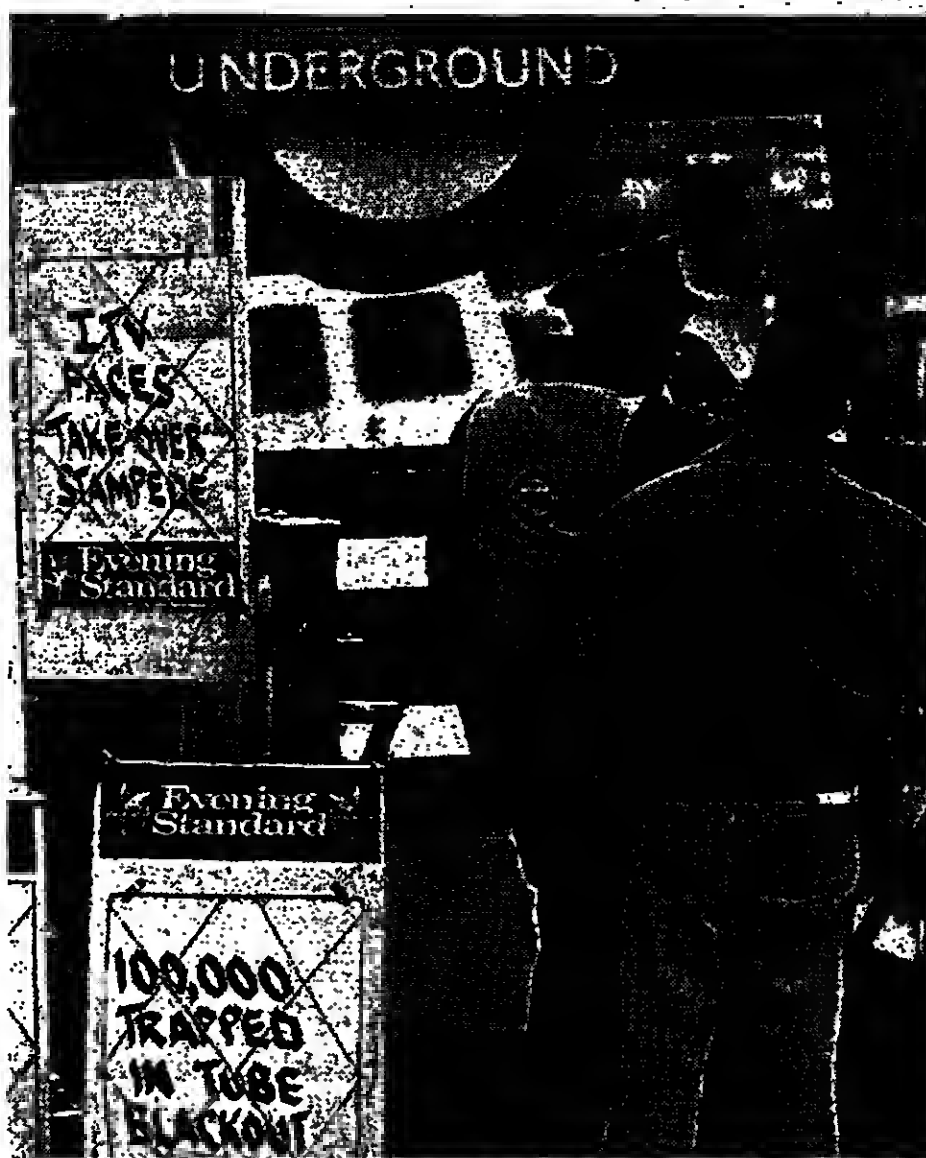
The company said it was

offering the mugging policy to meet consumer demand after recent attacks on holidaymakers.

"It's a recognition of what's been happening in the marketplace," the company said.

Mr Bob Clark, insurance products manager at Thomas Cook, the travel agents' chain, said few policies offered more than £20 for each day in hospital or £500 in total.

Mr Clark questioned the thinking behind the new policy. "Muggings are few and far between and the first thing you should do when asked for your money is hand it over," he said.



London Underground said yesterday 20,000 passengers had been trapped on board trains after a massive power cut disrupted morning rush-hour services. All had been safely evacuated but it was believed some people had been stuck in trains for up to three hours and had to walk along unit tunnels to get out. At one point, up to 25 tube trains were stuck in tunnels and a number of stations were shut. The scale of the breakdown prompted calls from business organisations, the rail unions and retailers for more government spending on the hard-pressed underground system.

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MANAGEMENT: MARKETING AND ADVERTISING

Loud cries of protest

As a new mother, Rachel Johnson reacts against the hard-sell tactics of the baby products manufacturers

For most mothers-to-be in the UK, the marketing campaign starts at 12 weeks, peaks shortly after delivery and then never seems to end.

On the National Health Service, women book into a hospital when they are about three months' pregnant. After blood tests and consultation with a midwife they are given a red plastic folder containing two items: a card detailing further appointments and a "Bounty Pregnancy Guide".

No less than a third of the pages of this glossy booklet, which declares it is written with the help and advice of members of the Royal College of Midwives, feature the sort of sickly advertisements that could only be found in a specialist publication.

Take the first few. "No job's too big for Baby Fresh," says the baby wipes manufacturer. "Come on, push, push, push, push," runs the text accompanying a picture of a Mothercare buggy. "I want to be the best mum in the whole world," says the Prudential in its drive to sell products to make baby more financially secure in the future.

Months later, the newly-delivered mother lies in her hospital bed snatching a few moments of rest

between visiting hours. A trolley laden with large sealed gift bags, pushed by one of 200 distributors from Bounty, the Dis-based publishing and services company that charges mother-and-baby companies a fee for joining its syndicated sampling service, is making the rounds.

If the woman accepts the assortment of Pampers nappies, Drapeline nappy cream, baby bath and other goodies without filling in a card saying she does not want to receive "further free samples and product information", she goes on a list.

For Bounty is at liberty under the Data Protection Act to put her name on its database, to sell on to the large number of companies hungry to tap into the baby products market - worth £1.5bn in 1990. Paul D'Amico, publications director of Bounty, claims his company is the only one with a nationwide spread: neither competitor he mentions, Newborn or Lifecycle Marketing, has contracts with hospitals.

Everyone is subjected to advertising from cradle to grave, not just pregnant women and new mothers. But advertisers do seem to reserve a particular intensity for these groups. "Heinz carefully markets its baby

food to parents to make sure they get the information they need and want," said a Heinz spokesman. And Bounty's business, advertising mother and baby products, is perfectly legal - though some might say that women are exhausted and distracted by the free samples at the one opportunity they are granted to avoid an avalanche of direct mail over the coming months.

Even so, many expectant or recent mothers will agree with Cathy Irons, the business manager of maternity services at St Mary's Hospital in London. She says that such women are particularly "vulnerable to advertising from all sides".

There are at least two reasons for this. First is the natural urge to be the perfect mother, exactly the button the Prudential pushed in its financial services advertisement. At the same time, first-time mothers have little idea which of the myriad products manufacturers insist they need buy to strive towards this perfection are useful, and which are expensive extras. In the past, for instance, objections were raised because the Bounty pack included sweet, syrupy drinks which could lead to tooth decay.



"No job's too big for Baby Fresh"

Ads in the Bounty pack play on a woman's desire to be a good mother

Philippa Need of the National Childbirth Trust says: "You are made to feel everything is so essential. But a baby bath, for example, is a complete irrelevance."

According to the Health Visitors' Association, women spent on average £1,050 in 1990 on clothes and equipment in the first year. At the same time, one in four of these had been means tested to receive the £100 state maternity grant.

Christine Cowdridge of the Maternity Alliance, which provides advice on maternity care and state benefits, says it is not uncommon for a woman to spend heavily on a new pushchair or steam steriliser to

find she cannot afford the basic nappies and babyclothes. "It's all too easy to succumb to well-targeted adverts," she says.

BT is just one of the 100 companies that bought Bounty's list of new mothers earlier this year. I was on it. In April, Bounty sent me - on behalf of BT - a glossy leaflet promoting mobile telephones and answering machines. "Now that you're a new mum, you can't drop everything every time the phone rings, can you?" it wheedled, next to a picture of a dressing-gowned woman cradling a rosy-cheeked baby. I binnet it with a practised flick.

A survey of agencies reveals optimism and uncertainty about the future. Diane Summers reports

A mixture of messages

The events of one day last month summed up the currently mixed messages coming from UK advertising agencies about prospects for business.

Abbott Mead Vickers reported a slight drop in its pre-tax profits for the first half of the year, although chairman David Abbott said he saw signs that "widespread cutbacks in client spending seem to be a thing of the past". The group felt "considerable optimism" as it looked forward to 1994, he added.

A few London streets away and on the same day, agency Gold Greenlees Troit issued a warning that profit forecasts by the City for the year ending next April were over-optimistic. This was because the recovery in both advertising and sales promotion had been slower than anticipated. The result had been the deferral and reduction of spending by a number of clients, said GGT.

The same mixed messages came from the latest annual survey by accountants Tonche Ross of advertising agency profitability in 1992.

The past year has been one of "uncertainty, tentative optimism and ultimately disappointment," finds the survey. At the same time, there appears to have been an encouraging halt in the long-term decline of operating margins and operating profits are beginning to increase.

The firm's latest annual survey is based on the results of the top 50 agency groups by billings. The combined pre-tax profits of the groups were wiped out by Saatchi and Saatchi's £500m write-off of goodwill, following the group's decision to acknowledge there had been a "permanent diminution" in the value of goodwill on earlier acquisitions. Ignoring Saatchi's write-off, average profits fell 2 per cent on the previous year.

For the first time, the survey includes some international comparisons for the largest quoted groups. By most measures, the US-controlled groups outperform their European competitors. For example,

operating profit margins of UK-based quoted companies averaged 6.7 per cent last year, compared with a 13.8 per cent average for the US companies.

The UK average, dominated as it is by the poor margins of Saatchi and Saatchi and WPP, masks the sound performances of Abbott Mead Vickers (15.5 per cent) and Gold Greenlees Troit (12.4 per cent), points out Tonche Ross.

An analysis of sources of profit from the published accounts of the largest quoted UK groups also shows that it has been more difficult in the past year to make profits in the home market than abroad.

While there was no real growth in the UK in 1992, markets in Germany, Austria, Portugal, Belgium and Greece grew by between 8 per cent and 40 per cent.

Profits from US operations onshored those for the rest of the world.

Redundancy and reorganisation have again been a feature of the year, finds the survey.

The top 50 agency groups have reduced the number of staff they employ by 5 per cent over the 12 months. An examination of those agencies which have retrenched shows that, overall, "biting the bullet can and does work. It is not as many think, the beginning of a downward spiral", finds the study.

While the recession may have been the catalyst that has created the crisis for agencies, in many areas of activity it has merely focused attention on problems that have existed for some time.

Concludes Tonche Ross: "The indications are that agencies have begun at last to tackle many of these problems. The many job losses and massive rationalisation costs testify that this has not been without pain."

*Tenth annual advertising agency profitability survey, edited by David Miles. Tonche Ross, marketing services group, Hill House, 1 Little New Street, London EC4A 3TR. £150

Guinness's stout-hearted revolution

Four years after its launch, canned Draught Guinness is firmly established as the most successful new product introduced in the UK beer industry for more than a decade.

More than 250m cans - fitted with the widget that gives the stout a taste and appearance close to that of a beer from pint - have been sold since 1989. This month, Sweden became the 51st country to import the product. It is a bestseller in markets from the US to Hong Kong. In the UK, Guinness's innovation has not only been good for the company, it has revolutionised the take-home beer market.

The difficulty of replicating the characteristics of draught ale and

stout in bottles or cans helped lager achieve even greater dominance of the take-home sector - where it accounts for nearly two-thirds of volume - than of pub beer sales.

The Guinness in-can system, which won a Queen's Award for Technology in 1991, has changed that. Work on the project began in the mid-1980s when the company revived the image of its draught stout to make it more appealing to younger pub-goers.

"We thought how wonderful it would be if we could also make it more appealing to take-home drinkers," says Brendan O'Neill, managing director of Guinness Brewing Worldwide. "Being a brewer which does not own pubs is a great incen-

tive to innovation."

More than 100 methods were tested. The researchers even tried pouring the beer through nylon stockings and from a can with a spout lined with sandpaper. Five years and £5m later, they found the answer: a plastic chamber, with a minute hole, fixed at the bottom of the can.

During filling, some beer is forced into the chamber under pressure. When the can is opened the beer surges out, creating the bubbles that form the creamy head.

Guinness discovered that the system worked equally well in a can of ale - and promptly launched its own brand of canned draught bitter. Other national brewers rushed to

develop their versions of the Guinness widget. Whitbread, having failed to persuade Guinness to license its system, developed its own system for canned Boddington's bitter and Murphy's Irish Stout. It has recently been extended to Flowers and Castle Eden ales and to Marston's Pedigree bitter. Courage has launched its variation on the theme in canned draught John Smith's bitter, backing it with a £5m campaign. Carlsberg-Tetley has now launched canned Tetley bitter in the north of England.

The new canned beers - priced at least 20 per cent above the original packaged products - have given a further fillip to the take-home trade, already growing fast as drinking

habits change under such influences as the drink-driving laws, ageing population and increasing home entertainment facilities.

Whitbread estimates the new draught-in-can stout and ale brands now account for 14 per cent per cent of take-home beer sales by volume and 22 per cent by value. Their share of the sector is expected to double by 1995.

Guinness has demonstrated its confidence in the growth of the market for its stout by investing £30m in canning lines at Dundalk, Ireland and Runcorn, near Liverpool, where the facilities will be capable of producing 2m cans daily.

Philip Rawstone

PEOPLE

BPB Industries anoints Cuny as future group chief executive

Plasterboard manufacturer BPB Industries, which parted company with its chief executive John Maxwell in September, has now promoted Jean-Pierre Cuny to the position of group deputy chief executive, as well as chairman of the gypsum division. He is expected to become group chief executive in due course.

In considerable contrast to Maxwell, who had no experience in the industry before joining the company in the spring of 1992, 53-year-old

Cuny, who is a French citizen, has been with the group since 1977.

Cuny joined the main board in 1986 and has most recently been deputy chairman of the gypsum division, running gypsum interests in continental Europe, from his Paris base.

An engineering graduate of the Ecole Centrale de Paris and metallurgy post-graduate from MIT, Cuny now moves to London. There his immediate task is to sort out the gypsum division

as a whole and organise the succession, according to Alan Turner, BPB's chairman and chief executive.

"His promotion to deputy chief executive is intended to signal his stepwise progression. When he has got gypsum sorted out, he can raise his head and become chief executive," says Turner.

Turner declined to comment as to why Cuny was not deemed a suitable candidate for the chief executive seat before Maxwell was appointed.

City teams shuffle packs

Smith New Court's Mike Unsworth, 44, who claims to be the longest-serving head of research of a major City broker, is moving into the firm's corporate finance team and handing his research baton over to Bruce Davidson.

Davidson, 38, has been following the conglomerate sector and, like Unsworth, joined SNC at the time of Smith Brothers' merger with the much smaller broker, Scott Goff.

The reshuffle coincides with another high-level defection from one of the City's most aggressive stockbrokers. Alistair Buchanan, SNC's number one rated electrical utility analyst, has left to join BZW along with colleagues Tim Ancher and Daniel Martin.

It is understood that Buchanan had been offered the job of joint deputy head of research at SNC along with Richard Dale.

The departure of Buchanan and his team is a blow for SNC which is corporate broker to several well known utilities.

However, the firm has had little difficulty replacing other star analysts who have been poached by rival firms and expects to fill the gap left by Buchanan's departure.

Meanwhile, Ken Taylor, currently head of sales at SNC's agency operations, has been promoted to deputy managing director of UK agency and will have overall responsibility for the business when Paul Roy, managing director UK agency, is away.

Michael Davids has been appointed deputy managing director UK agency and will be primarily responsible for closer integration between the overseas and UK agency business.

Rennie McConnochie takes over as head of UK sales and Mark Humphrey will be deputy head.

Robert Kretowicz, appointed md of corporate finance department of CHARTERHOUSE, moving from Chemical Bank.

Gary Jennison, appointed sales and marketing director and to the board of HITACHI CREDIT (UK).

Whitbread stacks up

Keith Worrall, Sainsbury's director of grocery and non-foods buying, is to retire next July after 40 years of service with the company, during which it has grown from a chain of high street grocers to the UK's biggest superstore group.

He will be replaced by Robin Whitbread, currently marketing director, while Whitbread's place will be filled by Ivor Hunt, departmental director responsible for marketing services.

Worrall, 56, joined Sainsbury's statistical department in 1953 and held various positions in the trading departments before becoming departmental director for dairy and frozen food buying in 1986. He took over his present position in 1990.

Sainsbury's said there would be a phased handover before next July from Worrall to Whitbread.

Whitbread joined Sainsbury's in 1969 and rose to become departmental director responsible for marketing in 1983.

Four years later he was appointed to the board of Shaw's Supermarkets, Sainsbury's US supermarket chain. He was appointed to Sainsbury's board as marketing director in 1990.

Ivor Hunt, who will join Sainsbury's board next March, worked for Hawker Siddeley Aviation, and as statistical manager for AGB research, before joining Sainsbury's in 1971 as head of statistical services. He became departmental director for marketing services in 1987.

Leigh Interests Bowden

Sham Bowden, right, has been appointed chief executive at Leigh Interests, the waste management group, moving on from A.E. Marks, a private company specialising in crop protection products and organic chemicals.

Bowden, 46, had been chosen by Malcolm Wood, chairman and chief executive, who intended splitting the roles following the growth of Leigh Interests. Wood, however, barely had time to usher Bowden into the company before dying from a heart attack, aged 62, on October 29.

Paddy Custis, non-executive deputy chairman of Leigh Interests since 1982, is taking over as non-executive chairman. Custis says that since Bowden had the imprimatur of Wood the company has every confidence that the transition will be smooth; Bowden is starting work at Leigh on December 13.

Bowden is a director of the British Agrochemicals Association and was formerly a director of the Bradford & district training and enterprise council.



cl. He has an MBA from Manchester Business school.

GrandMet movements

Steve Marshall, Grand Metropolitan's investor relations director since 1990, will become finance director for the European division of International Distillers & Vintners, the group's spirits company, on January 1, 1994.

Marshall, a fellow of the Chartered Institute of Management Accountants, joined GrandMet in 1989 as corporate director, financial planning and control, after holding a series of financial posts with Burton Group, Black & Decker, and BOC Group. He will report to Colin Gordon, president IDV Europe.

Catherine James, business director of GrandMet Estates, the subsidiary which manages the group's property portfolio, will take over immediately as group investor relations director.

James, an Oxford economics graduate who has worked with the Thomson Organisation and Price Waterhouse, joined GrandMet in 1984 in its brewing division.

Two years later, she moved to GrandMet Estates, where she has held several senior financial management positions, including finance director.

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TECHNOLOGY

In a new series on advances in transport technology, Andrew Fisher examines developments in air navigation systems

Aviation safety soars to new heights



Safety in travel

When you're strapped into your seat 30,000ft in the air, waiting for the hours to pass on an intercontinental flight, it might be reassuring to know that the aircraft's exact position is known to those on the ground. For much of its route, however, this is not the case, whether you are flying over land masses such as the Indian subcontinent or large tracts of water like the Atlantic and Pacific oceans. Radar stations cannot be planted all over Asia or across the seas and radio contact is limited and unreliable over vast distances.

For much of their journeys across the Atlantic, aircraft are out of contact as they fly between the radar stations on the Scottish and Canadian coasts. Pilots report their position by radio, but this can take time. Thus aircraft have to be kept far enough apart - 60 miles each side, 2,000ft vertically and 10 minutes' flying time behind each other - to ensure maximum safety.

But two things are happening which promise to change the world aviation picture: air traffic is expected to grow at around 6 per cent a year up to 2000, with aircraft movements set to double in Europe by 2010; and technology has advanced to the stage where computers and satellites can be used to pinpoint aircraft positions so accurately that separation levels could eventually be halved and more flights safely accommodated on the same routes.

Although the technology is available, this will not happen quickly. Governments, airlines and regulatory bodies have to agree on how and when it will be phased in - there is broad agreement on its desirability - and the air traffic management (ATM) systems have to be tested thoroughly. Airlines also have to decide the investment is worthwhile.

Aviation experts stress that the new satellite-based technology of automatic dependent surveillance (ADS), in which a stream of data is fed back automatically from the aircraft to the ground, is not aimed at increasing safety but at maintaining it, as more flights are allowed into the available airspace.

Flying is one of the safest forms of travel, although the spectacular nature of air disasters makes them especially frightening. The worst was a collision at Tenerife airport

in the Canary Islands in 1977 which killed 682 people.

"The objective is to improve the efficiency of the airspace with no reduction in safety," says David Featherstone, air traffic services development manager at Inmarsat, the international satellite organisation.

"Safety is not at issue," agrees Michael Parry-Evans, ATM marketing executive at Siemens Plessey Systems, part of the Siemens electronics group. "There would be delays rather than any imperilling

Ten years ago, the International Civil Aviation Organisation set up a committee on Future Air Navigation Systems (FANS) to look into the navigational needs of the next 20 years. It is under the auspices of FANS that ADS is being developed.

The satellites needed for ADS are in place. They cover four global regions and will - once ADS is introduced towards the end of the century - enable data to be sent digitally via satellite to a ground station and then into air traffic control centres. Those on the ground

ground-air communications allows telephone and data services to be combined, the instalment cost per new aircraft of up to \$500,000 (\$340,000) for each ADS unit and cabin equipment could be paid for by call charges.

That is what British Airways and its competitors hope. "We believe that to make satellite navigation successful and cost-effective for the airlines, we've got to bring a number of applications together," says Gerry Selves, BA's manager for flight technical projects. This

"The CAA has taken the initiative on this programme," says Leo Gallagher, commercial director of Racal Avionics which has co-operated with Honeywell of the US on Satcom, the leading aeronautical satellite communications system. "It is the first aviation authority in the world to grasp the nettle of ADS."

Other airlines such as United Airlines and Qantas are also studying ADS, in which Rockwell-Collins of the US is also a player, but all are cautious about investing at a time of economic uncertainty and stiff competition. They want to be sure of the savings ADS can bring by allowing them to fly the quickest routes and to avoid poor weather.

It is not only airlines which are under pressure to spend more money. Airport and traffic control authorities, too, are investing in high-performance systems to streamline the complex task of aircraft approaches, landings, takeoffs and manoeuvres on the ground. "The drive in the short to medium term is for increasing sophistication of air traffic systems," says Siemens' Parry-Evans.

With more powerful, integrated systems, air traffic controllers should be able to concentrate more on difficult and potentially disastrous incidents by having much of the routine taken away from them. On Siemens' latest air traffic management system, each aircraft is identified with a marker and information about its height, direction and speed is attached. The picture can be blown up, viewed on more than one screen and be overlaid with weather data. There is a built-in conflict alert to show if two aircraft are dangerously close.

In competition with companies such as IBM, Raytheon and Hughes of the US, Thomson of France and Alenia of Italy, Siemens is keen to move deeper into the ATM market, worth more than \$20m a year.

The European part of that is valued at some \$90m. As efforts by Eurocontrol (the European agency for air navigation safety) to harmonise and upgrade different national ATM systems - many of them dating from the 1960s - bear fruit, investment will be substantial. Among the new technologies being introduced are systems which use microwaves for quicker and safer landings.

The series continues next week with a look at vehicle safety.

Even with the best air safety technology in the world, human skills will remain at a premium. Powerful number-crunching computer systems will take much of the complicated routine out of navigation and air traffic control, and make it easier to deal with unexpected and risky incidents, but highly trained people will still be needed to fly and control the aircraft.

Computers and sophisticated electronics cannot do everything, however much they can simplify the business of taking off, flying and landing. They cannot, for example, deal with sudden and unexplained engine or fuselage failures which need human ability to land crippled aircraft and save lives.

Nor can they be a comforting substitute in passengers' minds for the physical presence of a crew, even if it is well.

"Airline passengers are unlikely in the foreseeable future to trust themselves to a fully automatic aircraft," Charles Billings, a US safety expert, told a recent conference in London. "Would you?"

Billings, from the cognitive systems engineering laboratory at Ohio State University, said thousands of people each day placed their faith in urban, rapid transit systems. However, these run under much tighter constraints than are possible in aviation.

"You cannot simply stop the airplane when something goes wrong in flight." Also, pilots and air traffic controllers were responsible by law for flight safety. "This responsibility cannot be abrogated, even though automated devices may remove some of the authority formerly possessed by these human operators."

Thus he added: "We believe that if pilots and controllers are to be held responsible for system safety, they must retain the authority necessary to command and control the system." That is what the pilots think, too.

Broadly, pilots support the introduction of sophisticated navigation systems such as automatic dependent surveillance (ADS), says James Gaskell, vice-chairman of the air traffic services study group at the British Airline Pilots Association (BALPA). But they are wary of too rapid a reduction of the present

separation limits such as those applying over the busy North Atlantic, where more than 200 aircraft are in the air at peak times. Both BALPA and the international pilots' federation want a co-ordinated introduction in accordance with proper rules.

"It is surprising how busy the Atlantic is at times," adds Gaskell. "You can sit at night and see the lights of other aircraft above and below. It [ADS] does need to be treated very carefully." Thus BALPA would like to see ADS used initially at the current separation levels, with these then gradually being decreased as the system proves its worth.

Because aircraft are already so reliable and automated, some 75 per cent of accidents have a human cause, Phil Hogg, British Airways' general manager for flight operational services, told the conference which was organised by the UK's parliamentary advisory council for transport safety.

These days, errors tend to stem from incorrect loading of navigational information into the on-board computer rather than wrong calculations, he said. "Therefore, the subject that requires most attention is this whole area of why people make mistakes."

Apart from the work of psychologists, government agencies and manufacturers in designing effective warning systems and controls, BA also relies on its own intensive analysis of incidents - including use of its computerised Basis (BA safety information system) database - and the human factors involved. The airline uses this information to help training and improve procedures.

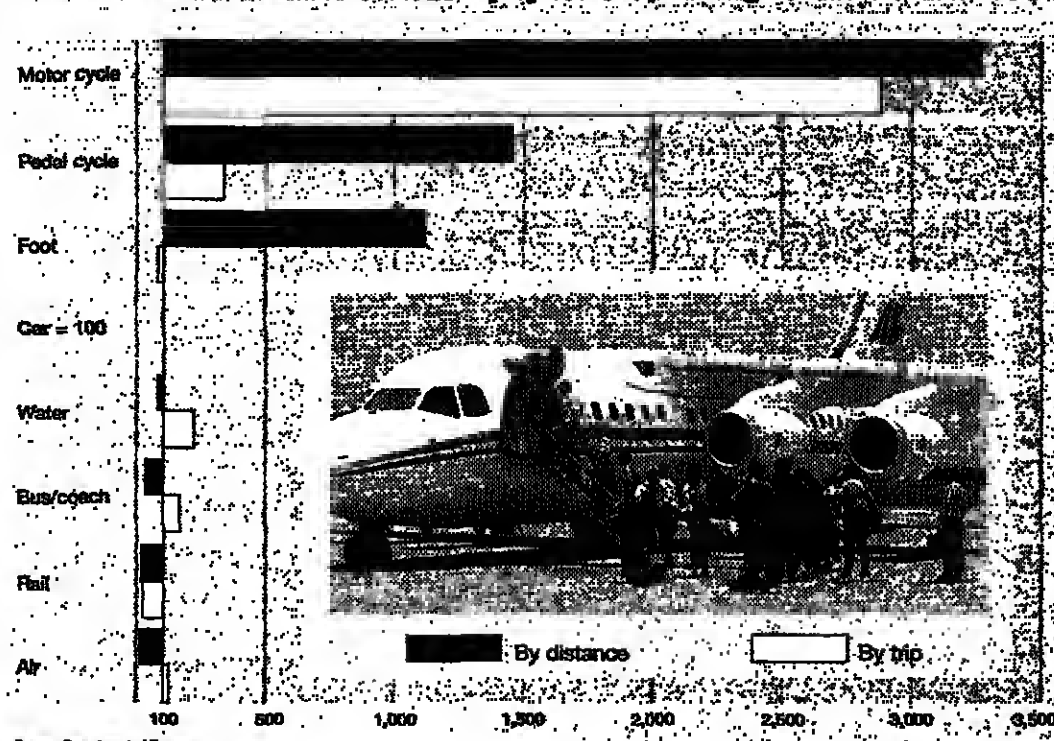
Much of the automation that pilots and controllers have become used to, said Billings, "is too often brittle instead of resilient, clumsy instead of facile and, above all, complex instead of simple."

But the new systems, he noted, were now starting to provide more help and information where it was most needed - such as after engine failures by compensating for uneven power thrust - and not just during routine flight.

"The means for at least semi-automatic air traffic control, as well as flight, are at hand."

But Billings added: "It is the human operators, not the computers, that remain responsible for safety."

Relative risk of death or serious injury for UK passenger travel in the 1980s



Source: Department of Transport

of passengers if air traffic control systems proved inadequate. The aim is to put in place a very viable transport infrastructure.

Today's infrastructure works, but is stretched and needs updating. Large areas of the world, such as India, Africa and parts of southern and eastern Europe, are poorly equipped with radar. In northern Europe, congestion can cause lengthy delays. Now, the development of high-powered computer systems, allied to the satellite network, has made it possible to plan for a new generation of equipment.

could follow an aircraft's track and direction based on the data - sometimes called "pseudo-radar" - being sent back. "It will make the controller's job a lot easier," says Featherstone.

Pilots, too, should benefit. Based on the satellite data, they could be given new flight paths to avoid bad weather or save fuel by keeping away from strong winds. Engine data could also be monitored.

ADS is basically a development of the in-flight telephone systems that airlines are introducing for passengers. Since the latest generation of

means a combination of ADS, telephones and data transmission for passengers and airline use, and facsimile machines.

The UK's Civil Aviation Authority has taken an early lead in studying the value of ADS. Using a Boeing 747-400 from BA, it carried out extensive tests on a flight from Osaka, Japan, to London's Heathrow airport. Reports were sent back from the aircraft via satellite every 10 seconds, but the CAA expects the typical reporting period for North Atlantic flights to be every five minutes.



Mitch Harris, Human Resources Manager Resins, Akzo America

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Cinema/Nigel Andrews

Menace aforethought

Which part of America should you live in for maximum safety and comfort? In Long Island you risk falling foul of the Jewish Mafia (*Amongst Friends*). In Arizona (*Benefit of the Doubt*) you might be stalked across baking deserts by barking Donald Sutherland (ex-convict, psychopath). And in the Deep South of *Hard Target* you could well get lost like Cajon driver Jean-Claude Van Damme, harried through the Louisiana swamps by neo-Nazi manhunters.

The best place, surely, must be Florida's gulf coast, as depicted in Victor Nunez's *Ruby in Paradise*. Here the only menace is invading tourists. Seasonally they clatter through the resort gift-shop in Panama City where the heroine works (Ashley Judd), a young girl hoping to find herself after fleeing unhappy adolescence in her native Tennessee.

No better state in the US for self-discovery. Surrounded by hideous souvenirs - the figurines made from coloured shells, the dayglo T-shirts - Ruby must search deep in herself for truth and authenticity. "I don't know what I'm doing here," she confides to her voice-over diary. But soon she is self-assured enough to find work, play and a sense of identity, and to juggle the two predators who want to get her into bed: ranchy employer's son Rick (Bentley Mitchum), and holier-than-thou environmentalist Mike (Todd Field).

Writer-director Nunez, who five years ago finger-painted a fine debut movie about the

South *Gai Young* *Un*, gives us a film in two halves. But simply, the first half is good, the second half self-destructs. For the opening hour we are enthralled by newcomer Ashley Judd's performance, with its hints of a secret life behind the stalling eyes, baby cheeks and self-defensive Southern drawl. And we purr with pleasure at the workings of the

RUBY IN PARADISE (15)
Victor Nunez

HARD TARGET (18)
John Woo

AMONGST FRIENDS (18)
Rob Weiss

BENEFIT OF THE DOUBT (18)
Jonathan Heap

IP5 (15)
Jean-Jacques Beineix

film-maker's own built-in junk detector. This goes "bleep" not just at the rows of rubbish in the gift-shops but at the dubious shelf life of the people Ruby meets: notably Rick (male chauvinism plus mother's-boy epinephrine) and Mike (fine until he reveals a weakness for God-slot television).

Part one is kept alive by a sense of danger and by our suspicion that there are pictures of disturbed corners in Ruby's own mind. Too much dozing in that diary, for a start. But part two starts in soon - too soon - on the process of doubt-alleviation. Lost jobs are regained, treacherous

boyfriends unmasked and steamy laboratories, but the maddest of all is the one with the signplate "Cultural Crossbreeding". Here men with white coats and smoking brains dream up projects such as *Hard Target*. What would happen (they muse) if we team a Belgian footboxing star with a Hong Kong action director and set them both down in French-American Louisiana?

Jean-Claude Van Damme is our hero-hulk with the trailing curls and legs as lethal and many-angled as compasses. John Woo of *The Killers* and *Hard Boiled* is called in to produce further evidence that he is the world's most gymnastic action director. And as for the plot - anyone got a plot? Oh yes, how about the old one about racist psychopaths going manhunting in the Deep South. That will do so long as we are insured against plagiarism suits from *Beijing and Southern Comfort*.

So the insane day begins; and the dreadful glory of a movie that is both delinquent and virtuous. Shotgun in one hand, girl in the other (Yancy Butler, searching for a Dad we saw manhunting to death in scene one), Mr Van Damme serpentine through the bayous hunting - and being hunted by - Lance Henriksen's sneering villain and his pay-by-the-hour client army. Snakes, petrol bombs, exploding cars; grenades down the trousers; and Mr V.D. coming through it all like a mixture of

Schwarzenegger and Nureyev. He dives swallow-like through the flames one moment, bluffs the daylight out of the badies the next.

I was appalled by the amount of careless laughter issuing from my area of the cinema, until I realised that much of it was coming from me. But then how does one react to a movie that resembles a Jackson Pollock painting in which the coloured smears are real people? Giggles seem as appropriate as shocked gasps. For this film has nothing to do with real life or real violence (that tends to hurt); rather it is a near-abstract riot of deriding in which visible injury is set firmly aside for visible ingenuity.

For a truly numbing use of violence we must turn to Rob Weiss's *Amongst Friends*. Here the lecherous classes of Long Island preside over a second generation of boredom-through-boredom. Andy, Billy and Trevor are scions of Kosher Nostra: Jewish dynasties surrounded by ill-gotten billions and by only-begotten heirs who wear that and more. Do not be fooled by the yachts, the lace tablecloths and all that money spent on their education. These boys want out of Millionaire's Row and into Scorsese's mean streets.

We, somehow, are supposed to care. Weiss has a funny idea of the things that might constitute a plausible, empathic, prompt source for a life of crime. (Jaded youngsters turning silver spoons into revolvers is not one.) And he has a funnier idea of character and structure. We dribble on through ten years of crime and punishment, feud



Bentley Mitchum and Ashley Judd in Victor Nunez's 'Ruby in Paradise'

and counter-feud, with no signs of ageing, no sense of psychological development, and certainly no increase in either wisdom or excitement.

But the week's Wooden Spoon for an American movie must be held back for *Benefit of the Doubt*. This finds Donald Sutherland released from a 22-year jail sentence for wife-murder and going in search of daughter Amy Irving, who testified against him. "Daddy, I forgot this..." he had told her outside court. So soon they are thrown sizzling into the silliest plot of 1993. Murder, incest, boat chases and wild, wild Arizona scenery; plus a handful of good actors struggling to be more than plastic

counters shoved around a giant high-speed board-game.

Things are little better on this side of the Atlantic. A "successful" European film used to be one that earned festival prizes and critical plaudits and then sent out ripples of innovation and aesthetic challenge to Hollywood. Today a successful European film is one so Hollywoodish already that America buys it up for a remake: *Cousins*, *Three Men And A Cradle*, *Nikita*.

Jean-Jacques Beineix's *IP5* has all the schmaltzy plot gimmicks in place to bait the Tin-seltown book. Two semi-delinquent street boys on the run, one black, one white. (This

should secure the cross-racial youth audience.) The wistful, dying old man they meet on the road and from whom they learn lessons in love, wisdom and the everyday-miraculous. (He is Yves Montand; add a few million older moviegoers who grew up with *Z and L-A-New*.) And - for what is a high-concept film without a "quest"? - an ensuing zigzag across France in pursuit of long-lost girlfriends (Montand), long-sought father figures (the boys) and other glib emotional payoffs.

Beineix, who made *Dau* and *Betty Blue*, specialises in a grandiloquent glossiness that masquerades as art. He begins the movie - almost promis-

ingly - as if it is a hip-hop musical. The black boy dances and sings along a midnight city street as his mate makes merry with the graffiti paint. The scene is so catchy, so surreal that we wish it had set the tone for the rest. "Les Sprays de Cherbourg" we could have taken, but not Beineix's ensuing attempt to pass off maudlin fable-spinning as Deep Thoughts about the homeless child in each of us.

As for the UK print's translational subtitles - "Chill out", "F*** me, what a babe!" - they add to the feeling that in Gallic movies today the trademark "Made in France" is being slowly obliterated by "Made for Hollywood."

A Rooster on top of the pops

Looking at London Contemporary Dance Theatre on Tuesday night at the beginning of its autumn season, I saw again what I have been seeing for 20 years: a superlative dance ensemble. When the company came into being at the end of the 1960s it was sometimes raw, but always eager, always intensely committed. Across the next decade standards of physical attainment - stunning skill, wholehearted and whole-spirited energy - were testimony to the guiding presence of Robert Cohan and the spiritual concern of Robin Howard, who had made the enterprise possible. After ten years the company was a world-beater.

Since then it has, astonishingly, improved, in matter of physical fitness, and adaptability to the demands of many choreographers. (Works by Martha Graham and Paul Taylor most honourably done; Cohan's choreographies perfectly shown; pieces by Richard Alston, Siobhan Davies, and others - all products of the organisation - given transcendent execution.)

Now, for reasons which are not as clear and straightforward as press-releases and apologists would have us believe, the troupe is to be reduced in size. Britain's flag-ship modern dance troupe is to be sent to the breakers' yard, to be replaced by a smaller ensemble under Richard Alston, as part of a "National Centre for Contemporary Dance".

Alston's appointment is good news. It is more curious that the Rambert Dance Company (from which Alston was summarily removed last December) is to be expanded to 25 dancers, with an orchestra, and is reportedly to

become a "neo-classic" group adapted to the work of its forthcoming director Christopher Bruce, and also supposed to be capable of playing a Balanchinian repertoire. (Humm! The dismantling of a superlative school, the fruit of an unrivalled company, in favour of a new unproved ensemble, is policy gone mad. The Luddites are in charge.)

It is, even more ironic, that the greatest success LDC has on its hands (and shuffling feet) at the moment is Christopher Bruce's

Clement Crisp asks why Britain's flag-ship modern dance company is being sent to the breakers' yard

Rooster. First made for the Geneva Ballet, it takes as its text awful songs by the Rolling Stones, but explores them in dances of whirling vitality which LDC bring off in fire-cracker style. It came as a wonderful end to a programme in which the dancers rescued two less than convincing pieces. Alastair Collins' *Shoes* is indeed about shoes - multi-coloured, chunky, better off than on. There is a score of abusive minimalism by Steve Martland (well played by a group under Nicholas Moisejkenko) and stylish design by Tom Cairns. The cast are in street clothes; the theme - I suppose - suggests that shoes are conformist, and that we are better off bare-foot. It is all rather flaccid, and terminally long. But when Miss Collins lets her cast dance, the steps fly, and we see how amazingly gifted

the troupe is - elegant in means, formidable in prowess, absolute and loving servants of their text. They make the piece exhilarating.

Nothing, no-one, can make the other novelty, a ripe piece of Eurotrash, bearable. It is entitled *Stand Skin* (no explanation given, though an added programme note talks about "mutations necessary for the survival of a species"), and it is by the French-based Angelin Preljocaj. Fourteen dancers are hideously garbed. (Caroline Attanasio has concocted what look like failed mixes of underclothes in funeral black; tights that are more hole than fabric; black shoes) and behave morosely. They may be in quest of a cure for the steps, or merely exercising their psyches. They do their grand best, but look very sad indeed, and I do not blame them.

Fortunately *Rooster* restores them to life. This is given with glorious vitality, a throw-away bravura and a muscular sophistication - the impossible made not only easy but witty - that explains exactly why this great company (and I use the words advisedly) should not be sacrificed to policy. There have been misgivings in recent years with LDC - failures in artistic direction - but the troupe is a national treasure. We do not have anything comparable in Europe. To sacrifice it on the altar of expediency and a chimeric re-organisation is criminal. Policy can be altered. To alter the company will be to deny its history - LDC and its School made possible the whole modern dance movement in this country - its splendid present, and its potential for the future of dance in Britain.

On Tuesday Sviatoslav Richter played Bach in the Barbican, with Christoph Eschenbach and the English Chamber Orchestra. It was only a pendant to his solo recital in the Festival Hall on Sunday, but a costly one: £40 for any seat in the stalls or the mid-front circle.

First, Eschenbach conducted a reasonably trim, moderately lively account of Bach's Suite in D. Then, after the interval, Richter stalked on to play the D major and G minor "piano" concerti, the composer's own re-writes of his unimprovable violin concerti in E and in A minor. (The keys had to be lowered because the harpsichords of his day did not reach far as the violin's top E.) Finally the conductor-pianist joined Richter for the C minor, two-keyboard version of a concerto Bach probably wrote for violin and oboe.

There were no disturbing signs of

Concert/David Murray
A high price for Richter's big sound

over-rehearsal, neither in the Suite nor in the concerted pieces. Anyway, in the concert Richter's and Eschenbach's big Yamaha grands often rendered the ECO strings all but inaudible - they might have been playing almost anything.

Though there are serious arguments for using the modern solo instrument that Bach never knew, the musical imbalance here was disconcerting. Not least because the ECO's continuo players had from the start included a harpsichord, the very instrument for which Bach intended his

concerto solos; we could not help but notice how much happier the balance was between him and his string colleagues than between them and the soloist.

Watching a brooding, tight-jawed Richter performance (he is 78 this year) is always rather awe-inspiring. Presumably that justified the seat-prices, for there was nothing greatly remarkable in his Bach interpretations. Eschewing the expressive nuances available on the modern piano, he played everything robustly, firmly and cleanly, without any special virtuosity in his solo breaks. It

seemed an exercise in heroically selfless restraint; and in the two-keyboard concerto, Eschenbach matched him.

We might have been bearing domestic play-throughs - except in the "Adagio e piano sempre" of the solo concerto in D, where Richter drew out the lyrical line to an elevated height. That was the redeeming passage of an otherwise low-profile concert. I got home in time to watch a beady-eyed BBC-1 programme about overpaid, underskilled conductors, such as record companies nowadays promote far beyond their half-formed merits. It was the most intelligent and usefully mischievous TV study of the real-life classical music business that I have seen, and we watched it free; it was at least twice as interesting as the laid-back, low-cost but pricey Richter exhibition.

Recital/Richard Fairman
Bravo Bartoli!

power of television and records. This was the first time that I had heard her live, and on the previous occasions she had cancelled. (Perhaps nobody told her I was coming.) Heard in the flesh, the voice may not be large, but it is firm and agile, now radiant, now implish, now witty, now defiant, a darting butterfly of a voice, always on the point of metamorphosis to some new persona.

In Mozart's *Exultate, jubilate* it was striking how Italian through and through her singing is. This piece has become a favourite with

light sopranos who show off their scales in the outer portions and waft disinterestedly through the slow central section. Bartoli's starting point is the words (an exciting thrust on "jubilate") and the changing emotions were vividly dramatised. With an Italian upbringing music is always theatre.

Among Italian composers Rossini is her natural choice and she sang three arias from his operas. Pamina's Prayer from *Le Nozze di Figaro* started with the most affecting pure tone, set in relief beautifully in duet with a solo

barp. When the main theme returned, accompanied by the full orchestra, she was only just loud enough in this hall, despite Giuseppe Sinopoli's considerate conducting.

Then came the famous arias from *La Cenerentola* and *Il barbiere di Siviglia*, each bubbling over with brilliance and personality. Bartoli sings her own decorations, which is wholly in character. Nothing this singer does is a mere echo of anybody else. With luck she will persuade opera managements to put on rare Rossini revivals for her in the future - perhaps with period orchestras, which would best match her scale.

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ATHENS

Megaron Tomorrow: Jacek Kasprzyk conducts Athens State Orchestra in Busoni's Piano Concerto, with soloist Aris Garoufalas. Sat, Sun: Nikolaus Harnoncourt conducts Chamber Orchestra of Europe in works by Beethoven, with violin soloist Gidon Kremer. Dec 5, 6, 7: Czech Philharmonic Orchestra (01-728 2333/01-722 5511)

BOLOGNA

Teatro Comunale The 1993-94 opera season opens on Sat with Puccini's *Trifolito*, staged by Riccardo Pasquali and conducted by Riccardo Chailly, with a cast led by Paolo Gavanelli, Mary Jane Johnson, Luis Lima (Il barbiere), Adriana Morrell (Queen Angelica), and Leo Nucci (Gianni Schicchi). Repeated Nov 30, Dec 2, 5, 7, 9, 12, 15. Prazak Quartet of Prague gives a recital on Mon. Chailly conducts Mahler's Third Symphony on Dec 10 and 11 (Biglietteria, Ente Autonomo

Teatro Comunale di Bologna, Largo Respighi 1, 40126 Bologna. No telephone bookings accepted. For information, call 051-529999

BARCELONA

The next opera production at the Liceu is *La fille du regiment*, which receives eight performances between Dec 4 and 19. Richard Borynec conducts Gian-Carlo Menon's 1988 Zurich production, starring Edita Gruberova and Deon van der Walt. Cecilia Bartoli gives a song recital on Dec 15 (tel 412 3532 fax 412 1196)

FLORENCE

Teatro Comunale Tomorrow, Sat, Sun: Gianandrea Gavazzeni conducts Mendelssohn's St Paul. Next week's concerts are conducted by Aldo Ceccato (055-277 9236)

LONDON

THEATRE
● *Angels in America*: Tony Kushner's epic two-part drama, comprising *Millennium Approaches* and *Peregrinations*, can now be seen for the first time in its entirety on the British stage. Deirdre Donnell directs both parts in the Cottesloe (National 071-228 2232)
● *The Wind in the Willows*: Alan Bennett's award-winning adaptation of Kenneth Grahame's magical animal tale returns for a Christmas run in the Olivier. In repertory with *The Absence of War*. David Hare's new play about the way politicians

think and act, starring John Thaw (National 071-928 2252)
● *The Iron Man*: Pete Townshend's new rock opera, based on a story by Ted Hughes, receives its world premiere tonight in a production directed by David Thacker (Young Vic 071-928 8363)
● *Cleopatra*: Michael Meyer's controversial play exploring the wilder shores of political correctness, with David Suchet and Lia Williams (Duke of York's 071-836 5122)
● *Moonlight*: Harold Pinter's first full-length play for more than a decade has gained in impact since its transfer to the West End from the Almeida. Ian Holm heads the cast as a father on his deathbed presiding over the disintegration of his family (Comedy 071-867 1045)

OPERA/DANCE
Covent Garden The Royal Opera's repertory is currently devoted to Die Zauberflöte, in a re-staging of Martin Dunst's Scottish Opera production, with changing casts including Amanda Roocroft, Sumi Jo and Wolfgang Holzmair. Tosca is revived on Dec 4 with Anna Tomowa-Sintow. The Royal Ballet has a double bill pairing Balanchine's Ballet Imperial and Ashton's Tales of Beatrix Potter, and a mixed bill including MacMillan's Different Drummer and Forsythe's Herman Schmerman (071-240 1066)
Coliseum English National Opera has a new production of Lohengrin, conducted by Mark Elder and staged by Tim Albery, with a cast led by John Kaye, Linda MacLeod, Linda Finkle and Malcolm Donnelly. Repertory also includes Il barbiere

di Siviglia, La nozze di Figaro and Die Fledermaus (071-836 3161)
Sadler's Wells London Contemporary Dance Theatre is in residence till Dec 4 with three programmes, including choreographies by Christopher Bruce, Amanda Meyer and Aletta Collins (071-278 6916)

CONCERTS
South Bank Centre Tonight: North Indian classical music with Ustad Vilayat Khan. Tomorrow (RFH): John Lill plays Brahms' Second Piano Concerto with the London Philharmonic. Tomorrow (CEH): Sian Edwards conducts Docklands Sinfonietta in Roussel, Lutoslawski, Szymanowski and Haydn, with soprano Joan Rodgers. Sat: David Willocks conducts Bach Choir in Bach's Christmas Oratorio. Sun (RFH): Vienna Boys Choir Christmas concert. Sun (CEH): Matthias Bamert conducts BBC Symphony Orchestra in Paderewski and Gershwin. Mon: Alfred Brendel plays Beethoven piano sonatas. Tues: Wolfgang Sawallisch conducts London Philharmonic in Egk, Bruhn and Richard Strauss, with violin soloist Maxim Vengerov. Wed (RFH): Kronos Quartet. Wed (CEH): Paul Sacher conducts London Mozart Players. Dec 4: Boston Symphony Orchestra (071-928 8800)
Barbican Tonight: Kent Nagano conducts London Symphony Orchestra in works by Boulez, Paganini and Mahler, with violin soloist Sarah Chang. Mon: Nagano conducts London Sinfonietta and Chorus in works by Messiaen, with keyboard soloists Paul Crookley and Jeanne Loriod. Tues: Christoph Eschenbach directs ECO in

Beethoven, Janacek and Haydn. Dec 2-12: Colin Davis conducts four complete performances of Berlioz's *The Trojans* (071-638 8891)

MADRID

Auditorio Nacional de Musica Tonight: recital for two pianos by Fred and Marina Hammond, music by Brahms, Debussy, Poulenc, Corigliano and Lutoslawski. Tomorrow, Sat, Sun: Aldo Ceccato conducts Spanish National Orchestra in Tchaikovsky's Third Symphony and Stravinsky's Petrushka (01-537 0100)

MILAN

La Scala opens its 1993-94 opera season on December 7 with La Vestale, conducted by Riccardo Muti and staged by Liliana Cavani, with a cast headed by Maria Dragoni and Derynne Graves (eight performances till Dec 23). The Boston Symphony Orchestra gives a concert on Dec 13, and there will be eight performances of the Nureyev production of The Nutcracker between Dec 14 and 31 (02-7200 3744)

NAPLES

The 1993-94 season at the Teatro San Carlo opens on Dec 10 with Rossini's *Mosè in Egitto*, with a cast including Roberto Scanduzzi, Mariella Davis and Rockwell Blake, conducted by Salvatore Accardo (six performances till Dec 22). The season also includes La traviata

with Giusy Devinu (Jan 15), La Sonnambula with Mariella Davis (Feb 26), L'occasione fa il ladro (March 16), La favolite (April 6) and Manon Lescaut (May 28). Booking and information: Teatro San Carlo, Via San Carlo 98, Naples (081-797 2331)

ROME

The new season at the Teatro dell'Opera is due to open next Tues with Aida, in Zeffirelli's 1963 Milan production with Nina Raulo and Giuseppe Giacomini. Repeat performances have been scheduled for Dec 2 and 5, but the theatre is notorious for last-minute changes and cancellations (06-481 7003)

TURIN

Teatro Regio Mon: Brigitte Fassbender and Michael Austin sing Mahler's Das Lied von der Erde, with pianist Cyprien Katsaris. Dec 9: first night of Luca Ronconi's Italian-language production of The Makropoulos Case, with Raina Kabaivanska (011-8815 214)

VENICE

Teatro La Fenice Tonight, Sun, next Tues and Thurs: Garcia Navarro conducts Pier Luigi Pizzi's new production of *Mosè in Egitto*, with cast led by Ruggero Raimondi, Robert Swensen and Luciana Serra. Sat: Vladimir Spivakov conducts Moscow Virtuosi in works by Stravinsky, Mozart and Schnittke (041-521 0161)

ARTS GUIDE

Monday: Berlin, New York and Paris.
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Thursday Sky News: Financial Times Reports 2030; 0130
Friday Super Channel: European Business Today 0730; 2230
Sky News: Financial Times Reports 0530
Saturday Super Channel: Financial Times Reports 0530
Sky News: West of Moscow 1130; 2230
Sunday Super Channel: West of Moscow 1830
Super Channel: Financial Times Reports 1900
Sky News: West of Moscow 0230; 0530
Sky News: Financial Times Reports 1330; 2030

Nice brain, shame about the feathers

Sex is not only one of the wonders of life but also one of the great mysteries of evolutionary biology. The other is human intelligence. This remarkable book draws together many of the latest strands of scientific thinking, to create a coherent explanation both for sexual reproduction and for the extraordinary explosion in human brainpower over the past million years.

The first big question is why animals have been put to the trouble of creating separate males and females to reproduce sexually, when asexual reproduction requires much less time and effort. The answer produced 50 years ago - that sex helps a species adapt to changing circumstances by sharing out genetic innovations - is unacceptable to the "selfish gene" school that dominates biology today.

Cootemporary biologists believe the individual and its genes always come first; evolution never operates directly for the benefit of the species. Asexual individuals producing self-fertilised eggs should be able to swamp sexual rivals, who can reproduce only at half their rate, before the long-term advantages of sex make themselves felt.

The surprising answer, according to Ridley, is that sexual reproduction evolved to beat disease. The mixing of genes through sex gives the offspring a much better chance of withstanding the host of viruses, bacteria and other parasites that plagued their parents. Asexual rivals, on the other hand, are stuck with essentially the same disease-fighting genes as the previous generation.

Ridley describes new evidence to show that sex is worthwhile because it gives your children an immediate advantage in the fight against disease. Some comes from the molecular biology of germs and genes, some from computer modelling and some from experiments and observations of real animals. The Mexican minnow, for example, can reproduce with or without sex. If there is fungal disease in the pond, the sexual strains dominate; if not, they lose out to their asexual rivals.

THE RED QUEEN: SEX AND THE EVOLUTION OF HUMAN NATURE

By Matt Ridley
Viking £17.99, 404 pages

The Red Queen goes on to show how, once separate males and females existed, genetic competition led to the growth of sexual adornments whose principal purpose is to attract the best possible mate. One example is the peacock's tail. Another is the human mind. Ridley picks up the recent work of biologists such as Geoffrey Miller of the University of Sussex in suggesting that the best explanation for human intelligence is as a sexual adornment. They reject the traditional view that brainpower started increasing rapidly among our ancestors because intelligence was so useful for making tools, using fire, hunting animals and gathering plants. Those challenges are essentially predictable, requiring some intellect but not any increasing amount - and they would have applied equally to other apes living on the African savannah.

The human brain, according to Miller, is "largely a courtship device to attract and retain sexual mates: its specific evolutionary function is to stimulate and entertain other people and to assess the stimulation attempts of others".

Brain size would originally have started to increase through chance mutations in the genes controlling sexual selection. These would have spread rapidly through the pre-human population, in what Ridley calls an "arms race between the sexes". This is the Red Queen effect, named after the character whom Alice meets in *Through the Looking Glass*. However fast she runs, the world keeps pace with her and she never gets anywhere. However intelligent we are, more intelligence is always better for understanding, manipulating and seducing other people with similar brain size.

As Ridley admits, the sexual evolution of the human mind is much the most speculative theory discussed in his book. But it is as plausible as any

alternative explanation for human intelligence, and it accords with examples of the Red Queen in action elsewhere in the animal kingdom, which have been subjected to various experimental tests.

Many mammals and birds have developed elaborate colours, ornaments, displays and songs, to persuade members of the opposite sex to mate with them. These special attractions do not necessarily help individuals survive in the natural environment - indeed they may hinder survival by wasting precious energy or attracting the attention of predators - but no one dare out of this race between the sexes.

The sexual pressure is greatest in polygamous species such as the peacock. If all peahens go for males with the showiest tails, then a less discriminating female who picks a relatively plain mate is likely to have plain-looking sons. They will fail to attract other peahens and so her genes will die out.

Ridley, a British science journalist and former zoology researcher, gives only sparing personal information about his biologist heroes. Never mind - the ideas in *The Red Queen* are so interesting that the excessive personal detail found in American popular science writing would have been an irritating distraction.

Illustrations, however, are a serious omission. Like many other science books, *The Red Queen* suffers because the author and publisher have made no effort to produce the graphics which could have illuminated the theories. For example, computer models showing sexual and asexual animals competing under different conditions would have been worth a thousand words.

Ridley's lucid words, in their absence, there are a few pleasantly generalised engravings that might have graced a Victorian volume. Indeed, for a book about human sexuality, it is curiously chaste in every way.

The Red Queen may link sex and intelligence on an intellectual plane but in practice it leaves both as mysterious as ever.

Clive Cookson



1990s market darlings: Control Securities' Nazim Virani, Polly Peck's Asil Nadir, QMH's Bairdrow, Brent Walker and John Gunn of British & Commonwealth

Variations on a corporate theme

Maggie Urry asks if shareholders in Queens Moat Houses should have seen trouble ahead

One corporate financier with experience of restructurings says, of those who came unstuck: "They were able to demonstrate a record and the accounts appeared to show asset and earnings growth."

A director at a UK clearing bank, says: "They all traded by reputation rather than substance. There's the amoral type, and the bullying type, but they all relied on being powerful and were often secretive about the business."

A common theme, as in QMH and Brent Walker, was a lack of proper management accounts.

The entrepreneurial boss had often built the business from scratch. Mr John Bairdrow, former chairman at QMH opened his first hotel in his house, a partly mock-tudor residence in Essex. Mr Robert Montagu, chairman of Tiphook, and Mr George Walker, ex-chairman of Brent Walker, also founded their business empires.

Typically they have a great belief in their own abilities, bolstered by City adulation. "If you are told you have the Midas touch, you believe it," the banker explains. Many appear to regard the company as their own private fiefdom. They are prepared "to bet the business" - regarded by many financiers as a sign of bad management; they take excessive risks - such as hanging on to assets in the hope that values will rise. If things go wrong, they blame bad luck.

"Good managers implement strategies appropriate to circumstances. In recession they rationalise, retrench, consolidate. Good management is about exercising options in a timely way and keeping exit routes open," says one lender. It is rare to find in one person the combination of skills to manage a business in both expansionary and recessionary phases. But, he says, it is difficult for others to tell a company founder: "Now we're in recession we need different people."

It is not surprising that rule one in the banker's manual, says a corporate rescuer, is to get rid of the boss.

The acquisitive company Doing deals is the entrepreneur's great love. But were companies that have since failed building on sand? A corporate financier says: "They were built on doing transactions where there is no room for error. You must assume continued economic growth because they can't take any downside."

Deal making for its own sake can prove a recipe for disaster. "The problem with acquisitions is that synergies are not achieved," says one banker whose fingers have been burnt. "You just get a bigger entity with bigger profits. Just because you can ride a bike it doesn't mean you can fly a jumbo jet."

An example of a "deal too far" is Brent Walker's £85m purchase of Grand Metropoli-

tan's betting shops in 1992. The high price paid and debt incurred proved to be the final straw for an already overstretched company as the economy moved into recession. With hindsight the company might have acted differently - but critics say the signs were there at the time.

The profit treadmill A succession of profit figures that seem to defy gravity is not all good news. In the 1990s, the entrepreneur could often point to a phenomenal profit record in justifying more deals, borrowings and share issues. But in recession, even keeping profits on a rising trend is difficult. And once on the treadmill, the City can be unforgiving of companies that fall off.

"The boss would promise the City 20 per cent a year earnings per share growth, and then tell the finance director to find it," says one corporate financier.

Rising asset values help since costs can be capitalised - taking them out of the profit and loss account and including them in the balance sheet value. "Say you buy a property for £100m and then revalue it at £150m. That gives you scope to capitalise £50m of costs against it - like a helicopter," the financier suggests.

Another way of making use of rising asset values is to pass assets between subsidiaries, crystallising gains and taking them into profits.

Other methods are to "front-

end" profits, taking profits which directors expect but which have not yet been made. QMH, for instance, used its incentive schemes, where hotel managers promised to meet certain financial targets over the next year but could keep any excess. QMH simply included the amounts promised in profits on day one.

The late Mr Robert Maxwell was notorious for padding out his profits with, for instance, foreign exchange gains and profits on disposals.

Unsecured lending During the 1980s banks were keen to lend in a drive for market share. The corporate financier says banks were lending assets without taking security over them: "The most junior analyst could see there was no cashflow." Without cashflow to pay the interest and with asset values slumping in recession, the loans could not be serviced or repaid.

"I've been through two recessions. After the first I thought, 'we've learnt our lesson, we won't do it again' but we did," says a clearing banker. He is cynical about the future, believing that banks will again succumb to competitive pressures when the economy next starts to expand rapidly. "The mood of the moment will dominate," he says. Another quotes the banker's maxim: "Lending money is easy. It's getting it back that's the problem."

At QMH, the banks, which are together owed £1.2bn, are discussing a financial restructuring of the company which should save at least part of their money. The shareholders, who rank last in the list of creditors, could be forgiven for asking how they were supposed to know the depths of QMH's troubles. The answer is that they might not have been able to judge the full extent of its difficulties, but there were enough warning bells ringing.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Essentials to close yawning budget deficit

From Mr Steven Bell.
Sir, Samuel Brittan's article, "An Enigma Behind the UK Recovery" (November 22), asks the difficult question: exactly how much spare capacity is there in the UK economy? The paradox in the Confederation of British Industry survey of the decline of excess capacity combined with the anemic gross domestic product expansion is, however, not so difficult to resolve.

First, the CBI survey is dominated by companies engaged in manufacturing whereas a much greater share of the

recession in the 1990s has been taken by the service sector. I would guess that retailers, bankers, building societies and the media could all comfortably cope with an increase in output of 10 per cent from current levels.

Second, excess capacity, particularly in manufacturing, does not stand idle forever. The conventional analysis of the output gap which extrapolates the trend in GDP and subtracts this from actual GDP is based on the premise that the capital stock is held largely intact during the cycle, unable

to change swiftly in response to the fluctuations in aggregate demand. In a recession as long and deep as that at the beginning of the 1980s and 1990s, some spare capacity will be scrapped. This will reduce but not eliminate the gap. A similar argument applies to labour. The unemployed become progressively less employable the longer they are idle.

The precise size of the output gap is not particularly relevant. It is clear that there is a gap which is unlikely to be reversed for the next two years at least if, as we at Morgan

Grenfell expect, UK growth is held below 3 per cent. Massive increases in taxation and/or reductions in public expenditure are required to close a yawning budget deficit. This, combined with the overhang of debt from the 1980s, will prevent demand from becoming too firm. Further gradual monetary easing in the form of lower sterling and/or base rates is justified.

Steven Bell,
Chief economist,
Morgan Grenfell & Co,
23 Great Winchester Street,
London EC2P 2AX

Solution to league tables

From Mr Michael Mavor.
Sir, It is amazing what you can do with statistics. Three years ago I presented the headmaster's special prize at St John's College School, Cambridge, to a boy who, according to the senior school for which he was aiming, had scored high marks in his Latin common entrance papers. He had not taken Latin at all.

The latest league tables from the Department for Education give the impression - and impressions can be as important as facts - that only 88 per cent of Rugby's GCSE candidates gained five or more A-C grades (independents remain at top in A-levels and GCSEs). November 17. Your article refers rather disparagingly to the GCSE performance (my italics) at Repton, Rugby and Halliburton, thus reinforcing the misleading statistics.

The cohort decided on by the DFE for these statistics in fact included, among other anom-

alies (young sixth formers), 15 pupils who were not taking their main group of GCSEs. Although we went through all of this shenanigan last year I am sad that some newspapers continue to present such misleading figures without sufficient explanation. In this age group, 94 of the 85 candidates at Rugby who took five or more subjects gained grades A-C; this represents a figure of 98.9 per cent.

The best solution for next year - league tables are certainly here to stay - is surely for the DFE to present statistics by year group rather than age, or (if it sticks to the age group) to show the results of those who have actually taken five or more subjects. If the DFE does not do this a very special headmaster's prize will have to be invented for it.

Michael Mavor,
headmaster,
Rugby School,
Warwickshire CV22 5EH

Keeping a check on cheques

From T J Walsh.
Sir, British banks are changing the system by which they process and clear cheques ("Banks set to process cheques for each other", November 15). Surely they should be taking steps to reduce drastically the volume of cheques handled.

This has been effectively accomplished in Switzerland. Every bill that I receive is accompanied by a standard payment transfer form. At the end of each month I group together all forms for payments due and sign a single

debit authorisation. I mail all of these to my bank (in an addressed envelope which my bank provides for me) and within five working days I receive from my bank an itemised list of the payments which have been made on my behalf and confirmation that my account has been debited.

I have a cheque book but seldom if ever, use it.
T J Walsh,
La Estancia,
17 Chemin du Deroche,
1801 Le Mont-Pelerin,
Switzerland

Reasons for larger civil service not hard to find

From Ms Elizabeth Symons.
Sir, Your leader article "Whitehall Farce" (November 6) falls well short of the FT usual rigorously analytical approach. The reasons why civil service numbers have risen are not hard to find - higher unemployment needs more civil servants to administer benefit; the unprecedented size of the prison population does not keep itself behind bars; VAT on fuel will not collect itself, and paying it back to those who cannot afford it - some 5m people - will need thousands more civil servants to check and administer claims.

Mrs Thatcher cut 100,000 jobs from the civil service, but the taxpayer still pays for the functions which were contracted out. The real cost of that exercise is revealed now when contracts are re-negotiated at well beyond the expected increases. But now there is no civil service alternative. Contractors may complain about favour to in-house bids, but civil servants complain about the government's dogmatic preference for the private sector above value for money for the taxpayer - as, for example, with the Capita vehicle licensing plates contract which costs £2m in the in-house bid. Mr Waldegrave's explanation for this was that even where the taxpayer could get work done more cheaply in the public sector, "it might be better done in the private sector". Without explanation, this remark seems to contradict the claim that decisions are based

on cost efficiency, and seems to have its roots more in the philosophical prejudices of the 1970s than the 1990s.

The simple solution to this endless process of claim and counter-claim is to involve the National Audit Office in assessing bids received not only as regards costs, but also on value for money for quality of services provided.

As to the old chestnut of open advertisement for top civil service jobs, we shall all be wiser when the Cabinet Office finally publishes the efficiency unit report. But open competition in itself will not provide for a less "secretive" system. Some recent appointments have demonstrated that government ministers take decisions on appointments on the basis of undisclosed criteria, and sometimes in opposition to the interview panel's recommendation. Taxpayers end up footing the bill for enormously inflated private sector salaries. The crux of the issue is that system must be based on fair and open competition safeguarded by public scrutiny. It is therefore unlikely to bear much comparison with the private sector.

The real issue about appointments at these levels is the threat of the politicisation of these jobs. It goes to the heart of the maintenance of a politically neutral civil service.
Elizabeth Symons,
general secretary,
The Association of First Division Civil Servants,
2 Caston Street,
London SW1H 0QH

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sociology, industry, technology and politics. Read what they all have to say. It could help make 1994 a happy new year.

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FINANCIAL TIMES

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Thursday November 25 1993

New moves in Bosnia

International peace efforts in Bosnia, of which so many have come to grief, are understandably greeted with increasing scepticism. But the latest initiative of the European Union has the merit of once more directly involving governments in the negotiations, instead of putting all the cards on the two international negotiators, Lord Owen and Mr Stoltenberg. That might just give the whole exercise more weight, particularly since US and Soviet representatives have been asked to join the twelve in the talks due to start in Geneva on Monday.

The proposal agreed by the EU foreign ministers this week seeks to adopt a hard-headed approach, which is a far cry from the abortive Vance-Owen plan, with its emphasis on an equitable division of the three ethnic communities into provinces within a unitary Bosnian state. It offers a progressive suspension of international sanctions against Serbia if Bosnia's Muslims are given 3 to 4 per cent more land than they were offered in last September's plan for the partition of the country into three ethnic mini-states. That is a realistic proposition, at least in principle, since Bosnia's Muslim-dominated parliament rejected the plan precisely because it fell short by some 3 per cent of the Muslims' territorial demands. Yet it is bound to be criticised by those who feel that the Bosnian Serbs have already been amply "rewarded" for their ethnic cleansing policies by retaining much of the land that they have conquered by force of arms.

ITV futures

The proposed changes to Independent Television ownership rules are a cause for neither joy nor anguish. While a flurry of takeovers between the regional groups should not harm viewers' interests, the timid liberalisation announced yesterday will do little to enhance the competitiveness of UK broadcasting.

The absurdity of stopping large ITV companies acquiring each other has been pointed out by the fact that hostile bids will be allowed from elsewhere in Europe. The absurdity of stopping large ITV companies acquiring each other has been pointed out by the fact that hostile bids will be allowed from elsewhere in Europe. The absurdity of stopping large ITV companies acquiring each other has been pointed out by the fact that hostile bids will be allowed from elsewhere in Europe.

Trade talks

The passage of the North American Free Trade Agreement set the stage for successful completion of the Uruguay Round of multilateral trade negotiations. Unfortunately, events since then demonstrate how difficult it will be to finish this play. With only three weeks to go, the December 15 deadline, difficult issues need to be resolved right now. Not only is this not happening, but the US is even introducing new problems at this very late stage in the negotiations.

In his statement to the Trade Negotiations Committee in Geneva last week, Mr Peter Sutherland, the EC's director-general, was even moderately optimistic. Eighty-three participants have made offers on market access; the principle of comprehensive "tariffication" of non-tariff barriers has been generally accepted; 85 participants have made initial offers on services; and new revised texts on the multilateral trade organisation and dispute settlement have also been produced.

Unsurprisingly, there remains a host of unresolved issues, to which new ones have been added. Under market access, for example, Mr Sutherland lists agriculture, textiles and clothing, tariff harmonisation, electronics, and leather products and footwear. Proposals to eliminate tariffs on steel products also remain critical if balance is to be achieved in the market access package.

Meanwhile, the US has outraged other participants by introducing a proposal to permit discrimina-

President Slobodan Milosevic, the Serbian president, who has called a general election next month, would undoubtedly greatly benefit from a lifting of sanctions. These have caused immense hardship both in Serbia and its ally Montenegro, provoking serious shortages of all kinds and unprecedented levels of hyperinflation and unemployment.

Whether Mr Milosevic can deliver the Bosnian Serbs, however, is quite another matter. Whereas he can probably twist the arm of Mr Radovan Karadzic, the Bosnian Serb political leader, it will be much harder to bring the military into line. The new plan has already been rejected by Gen Ratko Mladic, the hardline commander-in-chief of the Bosnian Serb army, whose contempt for agreements reached by political leaders appears to be a matter of reflex.

This is a serious problem, since the military on all sides have a vital role to play in guaranteeing the safe passage of United Nations relief convoys at a time when harsh winter weather is threatening the lives of hundreds of thousands more Bosnians.

Unless the talks make progress, this may be the last winter of UN involvement in Bosnia. The main contributors to UN forces in the former Yugoslavia, such as France and Britain, are now seriously thinking of withdrawing their troops next year if the political stalemate continues. Serbia would then face, continued war, tougher sanctions and no prospect of an end to its diplomatic isolation.

too small to be effective on the international scene. The equation of size with effectiveness in world markets is suspect. A sleepy, erstwhile monopoly double, its previous size will not necessarily be any better at winning business overseas. The more likely consequence is that it will waste shareholders' funds on foreign escapades, as has been the case with some privatised utilities.

The future of UK broadcasting needs to be understood in a wider context. Though the industry wishes to cling to its monopoly, events are fast moving out of its grasp. Changes in technology mean that broadcasting is not governed by the need to share a limited supply of frequencies between ITV companies and the BBC. Rivalry from satellite and cable TV is growing rapidly. In future, digital broadcasting and the ability to pump TV pictures down telephone lines will provide further sources of competition. There is also a powerful, if rather unfocused, trend to integrate different media, the so-called multi-media revolution.

At present, the UK media sector is hampered by a cross-crisis of regulations, of which the restriction on ITV takeovers is just one. It is moderately encouraging that ministers, yesterday promised to examine the rules preventing newspaper groups owning ITV companies. But if Britain's full broadcasting potential is to be unlocked, a strategic review rather than a piecemeal approach will be needed.

These solutions have to come from the negotiations between the US and the EC, the two chief actors. They must soon reach the agreements that will provide the basis for the final global package. Unfortunately, this week's discussions between Mickey Kantor, the US trade representative, and Sir Leon Brittan, the EC's chief negotiator, seem to have done more to clarify their disagreements than resolve them.

The process of change in Italy has acquired a new and more chaotic rhythm. Until last Sunday's local elections, the ruling parties looked capable of either delaying or blocking genuine reform of the political system. But the spectacular collapse of support for the Christian Democrats and their allies has removed this possibility.

The system of political and economic power, constructed and refined over four decades by the Christian Democrats and their henchmen, has begun to implode. In parliament, where their four-party coalition notional enjoys a working majority, they account for no more than 15 per cent of the national vote. Yet these discredited parties are meant to be the pillar of parliamentary support for the government of Mr Carlo Azeglio Ciampi.

This raises worrying questions, not only for Italians, who initially reacted with mindless shock to the new political geography, but also for Italy's international partners, concerned about the country's government, its commitment to tackle public finances and press on with ambitious privatisation plans.

The fears are genuine, reflected in the sharp falls on the stock market and the decline in the value of the lira in the early part of the week. However, they need not be exaggerated, provided Italians retain their fine sense of self-preservation and choose not to shoot themselves in the collective foot by backing away from reform.

Throughout the period of change since the general elections (April 1992), the political parties have always been brought face to face with reality by the markets, claimed one senior politician.

In other words, when things get chaotic here, we are reminded of the consequences of pressure on the lira and losses on the bourse. Equally, Italy wants to be a responsible member of the international community and there are limits as to how irresponsibly we can behave at home.

The previous government of Mr Giuliano Amato cleverly exploited this argument to the full in steering reforms and the budget through parliament last year. Mr Ciampi, persuaded to leave the governorship of the Bank of Italy to become prime minister in May, may lack the political background to play this game of political balancing. Nevertheless his experience as a central banker should give added weight to his insistence that Italy's credibility now depends on quick approval of the 1994 budget.

He also managed to persuade Mr Achille Occhetto, the leader of the former communist Party of the Democratic Left (PDS), to come out

Italy's old political order has collapsed and a new one is struggling to be born, writes Robert Graham

Faint signs of life among the ruins



on Tuesday with a formal statement backing the budget. Mr Occhetto, fresh from the success of his party in the municipal elections and a possible partner in a future government, demonstrated he has every interest in appearing a responsible figure. Behind the bellicose rhetoric of Mr Umberto Bossi, the leader of the Northern League, a similar realism probably lies.

The budget envisages raising £32,000bn (£13bn) through extra taxes and spending cuts to hold the public sector deficit to below 9 per cent of gross domestic product. The bulk will come from sharp reductions in spending in all ministries, as well as through a shake-up of the civil service. Parliament has been quietly seeking to erode parts of the austerity package and preserve the public administration from predatory cuts; thus there is a sizeable element in both houses with an interest in altering the budget and weakening both the fiscal side and

the spending cuts.

However, the government is ready to resign if the budget fails to pass before the end of the year - as it must by law. Were the government to leave en masse, parliament would almost certainly be unable to approve legislation altering electoral constituencies.

Further, the fall of the Ciampi government on the budget issue would leave no alternative but to go to the polls immediately, without constituency changes. This would make a mockery of the new first-past-the-post system because electoral boundaries would not have been redrawn. Despite the rumblings from some Christian Democrats and Socialists, it is therefore hard to see the budget falling.

The parties' sense of realism will ride side by side with a ferocious battle for political power, however. This has been all too evident as more and more of the dying regime's dirty linen floats to the

surface. In the past two months the Italian public has been treated to stories of a rebellious military preparing coups, and revelations about the misuse of secret service funds to bankroll the private lives of politicians.

So much mud has been flying that some at least has stuck to every institution, including the presidency. President Oscar Luigi Scalfaro was obliged to go on television at short notice to deny reports that when he was interior minister he knew about the misuse of secret service funds. This is the one ministry the Christian Democrats have never relinquished since 1946, and it has influenced some of the most sensitive aspects of national life. It is widely believed to have sat on the truth about many poorly explained events, including links between politicians and the mafia and the kidnapping and killing of former premier Aldo Moro.

As the old edifice crumbles,

everyone is simultaneously quarrelling over the inheritance and desperately laying down markers for a stake in the next republic. The existence of so many latent scandals, to say nothing of the ongoing corruption investigations, is a potent destabilising element. But the collapse of the old parties reduces the relevance of such muck-raking since it affects people and institutions on the way out.

The timescale in which the political parties have to regroup or recycle themselves is very tight if elections are to be held in March, as expected. The need to regroup explains why the Christian Democrats and their allies will still do all they can to put back the date as late as possible.

Even during the summer, after an earlier round in June of poor municipal election results, the Christian Democrats were still confident of remaining the country's largest party. Having conceded hegemony in the north to Mr Umberto Bossi's Northern League, the party had hoped to remain the dominant force southwards from Rome, leaving central Italy the old "red belt" to the PDS. This scenario no longer applies.

The league has established itself as the dominant force in the north with one third of the vote; while the neo-fascist MSI has emerged to take a similar share from Rome southwards. The only party capable of a sizeable national presence is the former communist PDS.

The rise of the MSI, which owes its inspiration to the corporatist state and law and order policies of Mussolini, might seem perverse. But on closer inspection it has captured those who have deserted the old ruling parties and are reluctant to endorse the left. The new electoral laws for local elections encourage a polarisation of politics - and the electorate has simply opted for the few parties unmarked by power or corruption.

The full impact of the MSI cannot be assessed until after the run-off in mayoral elections, due on December 5. In Rome Mr Gianfranco Fini, the MSI leader, is challenging Mr Francesco Rutelli, the Green candidate backed by the PDS and a leftist alliance. In Naples, Ms Alessandra Mussolini, grand-daughter of Il Duce, is in a run-off against the PDS and its allies.

If the PDS and its supporters fail to win both cities it would be a serious blow and the political panorama would be even more confused. On present form, it would mean that in the run-up to the next general election there would be absolutely no clear alliance likely to form a stable government. But at the moment, even one day is a long time in Italian politics.

A blueprint for quality quangos



PERSONAL VIEW

The number of quangos in the UK is increasing at a significant pace, taking more and more power away from local government. The trend is at odds with the renewed interest in local accountability, as manifested in the work of the Local Government Commission and Urban Partnership projects like City Pride.

Health authorities, training and enterprise councils (Tecs), development agencies and housing trusts are all quangos that operate at a local level with substantial budgets and powers. But all are nationally appointed by the relevant secretaries of state, and, as a consequence, have doubtful credentials when it comes to accountability and legitimacy.

Few wish to see such bodies again run directly by local authorities. But there is a widely recognised need for reforms to make such bodies more accountable and more responsive to the main users. What

is needed is better accountability and more efficiency, both of which can be nurtured by more "contestability". It would involve two innovations: first a new approach to appointment; second a new public power of dismissal.

Appointment of bodies such as health authorities would be the responsibility of an "appointment commission" representing the set of democratically elected institutions with a legitimate interest in the make-up of the relevant organisations. This could take the form of a cross-party national government, or third local government and one-third other stakeholder interests agreed by both groups.

The appointment of a new board would be announced publicly, with a six-month lead-in time. Their first budgets would also be made public, providing a transparent framework for potential bidders. It would then be open to any group to apply to become the board, just as a contractor would bid to run a local service. These bidders might range from companies or groups of local government officers to campaigning organisations. Bidders would be

required to set out their plans; the targets if any they aim to achieve; their management approaches; their business plan; and how they would meet their goals within the stated framework budget. The "appointment commission" would then, by successive rounds of elimination, choose a winner.

This model has several virtues. It

There is a recognised need for reforms to make such bodies accountable to the main users

would encourage creative "coalition building" - for example, between groups of doctors, administrators, health activists and general practitioners. It would be difficult for a board to represent only a narrow range of interests, and almost impossible for it to be used as an arm of party patronage as is often the case at present. It would encourage the evolution of more co-operative structures - strategic alliances

between different kinds of intermediate body would probably result. And it would make criteria of evaluation transparent, since each bidder would set out what it aimed to achieve and could be called to account at a later date.

The second requirement is to inject a credible competitive threat: a mechanism whereby a board can be removed if it under-performs. This could work very simply. If a board is deemed to be acting against the public interest, the relevant electorate would be able to petition for its removal. Five per cent of the population covered by a particular body - whether a Tec, health authority or urban development corporation - could sign a formal petition to demand a referendum on whether to retain the current board make-up. Ideally this would coincide with a local or national election. If the referendum went against the incumbents, by a simple majority, the appointments procedure would be set in motion to choose an alternative group. The approach would mimic pure democratic forms, but would only need to be used in *extremis*, given the diffi-

culties involved in mobilising 5 per cent of any population. Such a power of removal could dramatically influence the behaviour of such boards.

The idea has an interesting parallel. The task for public policy makers in monopolistic industries has been to replicate some of the effects of competition by making market entry easier. In the utilities the regulator's task is to ensure that, even without the reality of competition, the threat - targeted contestability - of competition forces managers to behave more efficiently.

In governance, too, there is now a need for more imaginative mechanisms which can marry accountability and efficiency and an appropriate level of public involvement. Contestability offers a good alternative to Whitehall patronage on the one hand and Town Hall patronage on the other.

Geoff Mulgan

The author is director of Demos, an independent think tank

Ken Clarke - supervatman?

Kenneth Clarke is but a few days away from his big test, his first Budget as chancellor. Within that is contained yet another struggle, dare he risk the wrath of Britain's newspaper barons by imposing value added tax on papers and magazines?

Of course, no threats are openly heard. But Observer understands that the chancellor has been receiving plenty of unsolicited advice. Viscount Rothermere, whose Daily Mail is one of the government's staunchest supporters, has had a two-hour private meeting with Clarke's boss; he can be trusted to have put a persuasive case.

Meanwhile, The Spectator magazine, part of Conrad Black's empire, has tried to get into Clarke's good books by letting him win one of its annual parliamentary Oscars yesterday, its debater of the year prize.

However, if Clarke has read the memoirs of Lord Lawson, a former chancellor, he will know that one of Lawson's biggest regrets was letting himself be talked out of imposing VAT on newspapers in his 1984 Budget by Mrs Thatcher. "Look Nigel," she told Lawson, "this is a wonderful Budget and you should get a wonderful reception. You don't want to spoil that by putting VAT on

newspapers." Lawson's advice is simple. A new chancellor has only one real chance of sleeping VAT on newspapers - in his first Budget.

Timely advice

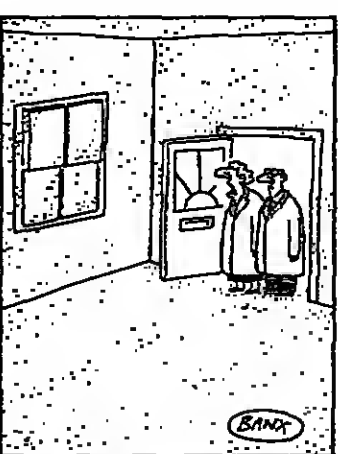
Meanwhile, another ex-chancellor, Lord Callaghan, also had a few tips for Clarke when he presented him with his debating award. Callaghan, who resigned after devolving starting in 1967, recounted that shortly after he moved into the Treasury his attention was drawn to a short letter in The Times. It noted that since the War Britain had had two types of chancellor. Those who left in disgrace and those who got out in time.

However, the best line from the 81-year-old Lord Callaghan, was his tale of a mix-up at a GT meeting he organised in Downing Street. A bemused American was perplexed by a wallmap full of red pins which he had found in his temporary quarters at Number 10. "We know the pins are not our nuclear bases in Britain and as far as we know they are not yours," said the Yank. Simple, explained Callaghan, they represent the bishops of the Church of England.

Writ large

Michael Heseltine, Britain's secretary of state for trade and industry, proffered some advice

OBSERVER



to those gathered at the Institute of Directors' dinner on Tuesday evening.

When he was in business he met his finance director every Friday afternoon to talk about some, but not all, the creditors. As he put it: "Sometimes in life it's better not to know too much."

He placed his creditors in three categories: those who had sent solicitors' letters; those who had issued writs; and those who had written 14 days' old, Heseltine's advice: Always pay off the third category.

with the problem of late payments in business...

Eau de hype

Nestlé may be the world's largest producer of mineral waters, but it's limbing too much carbonated water for its own good - its pronouncements are getting a little windy.

It trumpeted yesterday the establishing of the Institut de l'Eau Vittel-Perrier, to carry out research in all matters pertaining to its wondrous products.

Ramon Masip, a colourful Catalan who heads Nestlé's food businesses, managed to keep a straight face when explaining the sorts of things this cutting-edge institution would investigate: the effects of various minerals on health and digestion; the influence of various containers on the taste and shelf life of mineral waters; and improved drilling techniques to prevent impurities leaking into underground pools.

Oh yes, he added, it would also be good for publicity.

question. Ayudhya Investment and Trust Co (Aitco), only had 25m shares in issue.

Rival Bangkok brokers spotted the error and started buying more of the non-existent stock - adding to the problems of the well-connected Phatra, which co-operates with S.G. Warburg in researching Thai companies.

Phatra's shares were suspended, much to the embarrassment of Phatra's president, Viroj Nualkhair, who is also vice-president of the Stock Exchange of Thailand. Luckily for him and his firm, the stock exchange cancelled the relevant transactions, but not before more than 18m Aitco shares had been bought.

A post-mortem is being conducted to find out how the extra five zeros crept into the sell order from a sub-broker. But if it simply blames a faulty computer, then the central issue will just have been ducked.

Did Phatra contravene regulations, by allowing sub-brokers' orders to be routed automatically through its computer system to the market?

Caught short

A stockbroker offering to sell 20,000 shares when he meant to sell 2,000 might be considered unfortunate. But to try to sell 200m shares worth \$1bn - as Thai stockbroker Phatra Thanakit did the other day - is mind-boggling, especially since the company in

Ramifications

Terry Maher, the recently ousted boss of Britain's second highest chain of bookshellers, need look no further for the title of his forthcoming memoirs, mentioned in Observer last week. "Maher Maher Black Sheep", a reader helpfully proposes.

China to spend \$140bn on infrastructure plan

By Tony Walker in Beijing

China plans to spend 700bn yuan (\$140bn) by the year 2000 to overcome chronic transport bottlenecks restraining economic growth.

The official Xinhua news agency says China will pour funds into building railways, highways, waterways, pipelines and civil aviation facilities.

Foreigners will be encouraged to invest in Chinese infrastructure as partners in joint ventures or as sole operators. Hong Kong entrepreneurs are already engaged in infrastructure projects, including toll roads, ports and power stations.

Reports by the World Bank and other institutions cite inadequate transportation as one of the main barriers to faster and more orderly economic development. The new infrastructure blueprint includes:

● A plan to boost the total length of railways from 53,000km

to 70,000km. Rolling-stock capacity would be increased by 20 per cent to help meet demand in an economy expected to grow by 8-9 per cent annually. China's over-stretched rail system can cope only with 60 per cent of industrial demand.

● A road-building programme to add about 200,000km to the country's inadequate network. Only 6,000km of the present 1.02m km are classified as highway, properly paved and consisting of more than one lane each way.

● Doubling the number of ports to 500. An estimated 50 per cent of ships calling at China's cargo-clogged ports have to wait days before unloading.

Xinhua said "bolder steps" would be taken to encourage foreigners to invest in China's infrastructure. The agency did not specify what that meant, but the Chinese authorities have been actively seeking outside help by offering a range of incentives for build-operate-transfer projects.

"While continuing to use loans provided by the World Bank and foreign governments, China will welcome foreign investors to run joint ventures or solely-owned ventures in the construction of railways, highways and civil aviation facilities other than air control systems."

"Meanwhile, the country will encourage localities and enterprises to construct docks, roads and railways for their own use." Provinces are being asked to redouble their efforts to tap alternative sources of financing.

China and South Korea agreed yesterday to build a 670km undersea telecommunications fibre-optic cable to carry 15,000 telephone lines.

The agreement reflects growing trade links between the two countries since relations were established in August last year. Work on the cable will start next June and is expected to be completed by the end of 1995 at a cost of \$50m.

VW board meets to head off losses

By Christopher Parkes in Frankfurt

Renewed efforts to lift Volkswagen out of the red will head the agenda at a meeting of the automotive group's supervisory board in Wolfsburg tomorrow.

According to independent estimates, the company is heading for a loss of about DM2bn (\$1.1bn) this year and faces fresh challenges in 1994, when its important domestic market is expected to shrink by at least 5 per cent.

Tomorrow's discussions will centre on a draft agreement with unions, expected last night, to reduce labour costs by temporarily introducing a four-day week in VW's six German factories.

But Mr Ferdinand Piëch, group chairman, is also expected to seek approval for cuts of about a third in his medium-term investment programme.

He will also be closely questioned on the group's relatively poor showing in Europe this year and on his plans for rebuilding its loss-making US and Japanese operations.

The circumstances surrounding the Spanish Seat subsidiary's unexpected crash into losses at least DM1.25bn this year will figure in a report prepared by independent auditors, KPMG Deutsche Treuhänder, on the orders of Mr Klaus Liesen, chairman of the supervisory board.

The document is believed to blame poor financial controls and reporting systems. Seat's losses, discovered in late summer, followed the collapse of a new business plan drawn up by Mr Piëch's orders and designed to generate a break-even result.

Analysts suggest that the group's 1993 results will be pushed further into the red by the costs of closing Seat's Zona Franca plant in Barcelona, and by redundancy payments.

The KPMG report also confirms that investigators have not found any evidence that industrial secrets allegedly stolen from General Motors by Mr José Ignacio López de Arriortúa, a former GM director and now Mr Piëch's top production executive, have been used by VW.

Criminal investigations are in progress against Mr López in Germany and the US after his abrupt departure from GM in March. Hamburg prosecutors are examining a possible perjury charge.

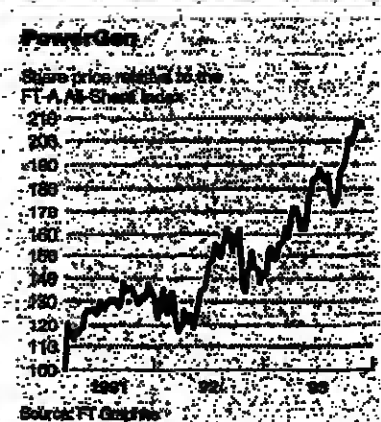
The group's difficulties have worsened dramatically this year, dashing Mr Piëch's early hopes of a break-even in his first year of office.

Although the company expects to sell 1.4m VW marque vehicles in 1994, unchanged from this year, business plan forecasts drafted at Adam Opel, the local GM subsidiary, say total new registrations in the German car market will reach only 3.02m compared with 3.2m this year and 3.8m in 1992. The industry total will slide below 3m in 1995, according to the Opel projections.

THE LEX COLUMN

Switching channels

FT-SE Index: 3067.7 (-2.1)



From the government which brought the nation the farcical ITV franchise auctions comes another blockbuster of legislative muddle. For the second time in as many years, the government is proposing to tamper with the industry's structure, turning the quoted television sector into a speculative playground. The proposed relaxation of the franchise rules has already resulted in stock market mayhem as investors anticipate a rash of takeovers reducing the 14 ITV companies to just eight. A failure of bids to materialise will produce some nasty crashes.

However, it would be surprising if Granada did not now tilt at LWT. It is also a racing certainty that Carlton will bid for Central, although the OFT may worry about its combined share of ITV advertising revenue. Both these targets could, of course, make bids themselves to try to evade takeover. The hypothetical bidding scenarios which could result are mind-boggling.

The change in the rules will throw up unmissable opportunities to grab a higher slice of the ITV network. It could still be tricky to make the takeover sums work. Television companies are relatively transparent and bidders will have a good idea of their target's current worth. But the ITV's insistence on regional programming will prevent the wholesale rationalisation of costs. Moreover, ITV companies will require rights issues to fund acquisitions. Yet they will have to raise money in ignorance of the future shape of the industry and with the fate of the BBC and the laws governing cross-ownership of the media still hanging in the balance.

in the first half - releasing \$46m in cash. If its stocks decline to 5m tonnes over the next 2 years, working capital will be cut by a further \$30m. With such a cast iron balance sheet, the company is hoping that diversification will make its capital work harder. It that induces a justifiable guesswork, at least PowerGen has proved itself a good project manager on its mainstream capital expenditure programme.

It will be difficult, however, to find sufficiently attractive projects to put the company's financial power fully to work. If PowerGen is as prudent as its accounting, shareholders may see some of their equity returned. That will only increase the financial attractions should the generators avoid a blind date with the Monopolies and Mergers Commission.

PowerGen

The heavy provisions which both PowerGen and National Power carry mean that they look more like Swiss banks than electricity companies. PowerGen topped up another \$12m yesterday, offsetting the \$11m it has spent in the first half. The provision was to index the present value of long tail liabilities, but the \$30m total it has stashed away for a rainy day looks excessive for such a well capitalised company. The latitude allowed finance directors to interpret the blurred border between prudent accounting and profit-smoothing is something the Accounting Standards Board could usefully address.

Another of the generators' little nest eggs is also beginning to hatch. PowerGen's coal stocks fell by 1.25m tonnes

Kwik Save

Kwik Save's full year figures cast little light on what the future holds. While European discount chains have long been a threat, the big guns of UK food retailing started cutting prices only after the financial year end. The performance of Kwik Save's shares reflects as much: holding up well to the end of August but falling by 30 per cent since. More important than the 14 per cent rise in profits, then, is the message that sales growth is now slowing as competition takes hold. Having set out its stall as a discount chain, Kwik Save has little option but to match J. Sainsbury and Tesco on price. Margins are being defended by asking suppliers to fund price cuts. As a champion of branded goods, Kwik Save holds strong cards in such nego-

tiations. But manufacturers can only be squeezed so far. Kwik Save has in the past sacrificed margin in favour of volume growth and it would be strange if the company reacted differently to this latest challenge. How far margins might have to fall to keep sales moving is in the hands of the competition.

With a return on capital higher than its peers - and a store opening programme funded entirely out of cash-flow - Kwik Save can afford to keep expanding even as the pressure builds. But new stores alone will not deliver earnings growth if margins are falling elsewhere. If returns on new investment turn out to be much lower than in the past, the argument for spending less and distributing more to shareholders will be compelling.

Tate & Lyle

Tate & Lyle's share price is now back to within spitting distance of where it was when the company issued its profits warning in September. In the light of worries elsewhere in the food sector that is a doubly commendable performance, so there are grounds for wondering whether the warning was necessary in the first place. Doubtless companies should not allow expectations to stray too far out of time. But it also helps to manage expectations. On that basis, incidentally, it is hard to see many being willing to correct assumptions that are too low. The important thing is to see a return to normalcy on the day. Attention yesterday focused less on Tate's mere 17 per cent increase in profits than on the thought that its prospects are slowly improving.

Last year, currency movements accounted for nearly two thirds of the increase in profits. This year the emphasis should be more on underlying growth, with improvement in the US stemming both from higher sugar prices and from cost cutting at Staley. There should also be some recovery of the European sweetener market.

Together with Tate's strong cash-flow and its own estimate that changes in the last budget defer the onset of an ACT problem till 1996, this leaves scope for continued dividend progression. Tate will doubtless hope that this pushes its share price high enough to encourage conversion of its preference shares. Interest cover of 5.7 times leaves little to fear in gearing of 78 per cent. A lower figure would provide more flexibility for expansion nevertheless.

C&W sends Michael Manley to help win Cuban contract

By Canute James in Kingston and Andrew Adonis in London

Mr Michael Manley, the former Jamaican prime minister, has been recruited by Cable & Wireless, the UK telecommunications group, to lead negotiations with the Cuban government about possible C&W involvement in modernising Cuba's telephone network.

The talks signal a further relaxation by the Castro regime in its attitude to foreign investment. Earlier this year it went some way towards legalising use of the dollar in Cuba, and has promised further currency liberalisation.

The Cuban government is believed to be talking to at least two other telecom operators besides C&W, including Telefonica, the Spanish state operator,

which has significant interests in Latin America. No US telecoms company appears to be involved.

C&W, whose interests centre on the UK and past and present UK dependencies, operates in 18 territories across the Caribbean region. It owns 80 per cent of Telecommunications of Jamaica, and has significant operations in Barbados, the Cayman Islands, Bermuda and Trinidad and Tobago.

Mr Manley, who resigned his premiership in March 1982, said he had already visited Cuba on C&W's behalf and had met President Fidel Castro and other leading government officials. He said he told them C&W had invested heavily in Jamaica to improve the island's telecoms, concentrating on building networks in rural areas.

Mr John Carrington, C&W's

Caribbean director, said talks were at a preliminary stage, but the company was "very keen" to operate in Cuba provided it could be arranged without offending US sensibilities.

Cuba's state telecommunications company already has a joint venture with a private Mexican company to operate a cellular mobile network. However, the antiquated fixed-line network is a state monopoly, offering lines to only a tiny fraction of the 11m population.

In July the US State Department relaxed restrictions on telecoms companies seeking to provide phone links to Cuba, allowing Cuba to receive half of future telephone revenues for international calls.

Demand for telephone links among the Cuban exile community in the US is high.

Russian poll shows lead for Gaidar

By John Lloyd in Moscow

An authoritative poll in Russia's cities and towns shows a clear lead for the liberal reformist Choice of Russia political bloc, headed by Mr Yegor Gaidar.

The poll also shows the grouping headed by Mr Grigory Yavlinsky not far behind, with both of them far ahead of the rest of the field.

The survey, to be published today in the newspaper Sevodnya, shows Choice of Russia with 29.2 per cent and Mr Yavlinsky's group with 20.5 per cent of the vote. The Russian Communist party is next, garnering 7.7 per cent.

One of the surprises is the very low showing of the Party of Unity

and Accord, headed by deputy prime ministers Sergei Shakhrai and Alexander Shokhin. They poll a mere 3.7 per cent, below the 5 per cent minimum vote needed for the party to have seats in the lower house.

The strong showing for Mr Yavlinsky's party, which has campaigned on a programme of more moderate reform with an accent on wider privatisation as well as (on the part of some of its leading candidates) opposition to the draft constitution, points to a powerful role for the group's leaders in the next parliament - if they can sustain the momentum. Mr Yavlinsky has had talks with Mr Gaidar on co-operation between the reformist groups before the elections, but with no

result so far. As the election campaign gathers momentum, neighbouring former Soviet states have reacted angrily to attempts by Mr Andrei Kozyrev, the Russian foreign minister, and other leading politicians to use the position of ethnic Russians in these states as an election issue.

President Boris Yeltsin of Russia has allowed the city authorities of Moscow to draft a decree on privatisation of property in the capital, according to Mr Yuri Luzhkov, the city mayor.

If the decree is signed, the city would gain control of a process that has been largely controlled by Mr Anatoly Chubais, the deputy prime minister and chairman of the state property committee.

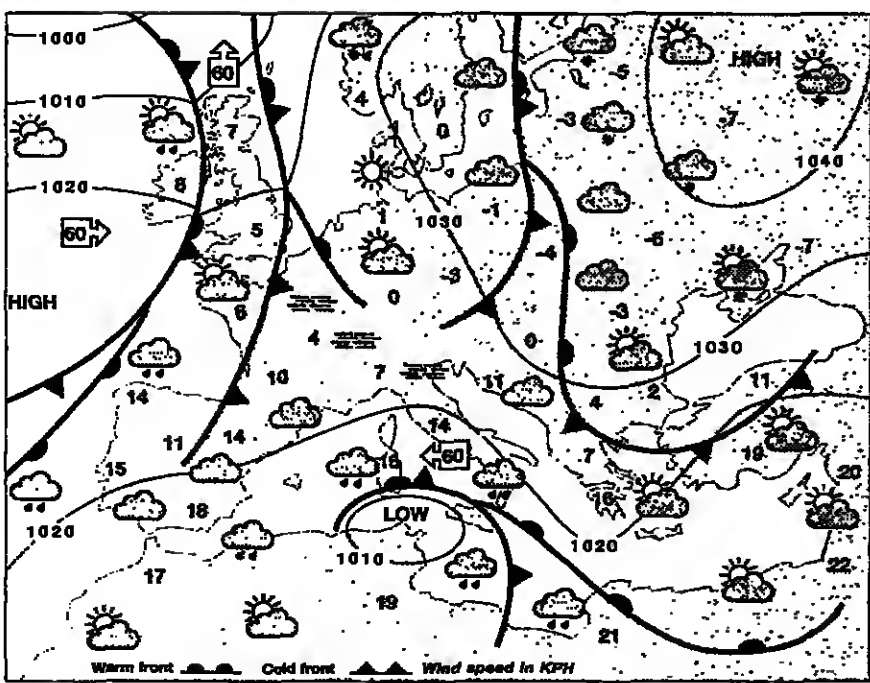
FT WORLD WEATHER

Europe today

The large high pressure area in Russia will temporarily weaken but will continue to dominate central Europe. Central and Eastern Europe will be settled and frosty with widespread cloud and isolated snow flurries. Sunny intervals in the Low Countries, Denmark and Germany will boost afternoon temperatures well above freezing. Cloud will prevail over Scandinavia with rain along the Norwegian coast and snow over Finland. Patches of fog and low cloud will persist in France. The western Mediterranean will have a lot of rain, sometimes accompanied by a rumble of thunder.

Five-day forecast

During the weekend, the persistent Russian high will strengthen again as it moves towards southern Scandinavia. As a result, after a relatively mild period over the western countries, a wintry air mass will move in from the east. However, no significant snow is expected. Western parts of the British Isles will have unsettled conditions with recurrent rainfall and mild temperatures.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

Location	Temp	Location	Temp	Location	Temp
Algeria	21	London	10	Paris	11
Amsterdam	12	Luxembourg	10	Rome	15
Athens	18	Madrid	12	Stockholm	5
Berlin	8	Moscow	15	Warsaw	7
Bombay	34	Nairobi	25	Zurich	9
Buenos Aires	22	Reykjavik	5		
Cairo	22				
Cape Town	14				
Caracas	29				

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ROLLS-ROYCE

POWER GENERATION CONTRACTS WORTH £600 MILLION WON

Three major power station projects in India with a total value of £600 million were secured last week by the Rolls-Royce Power Group. The orders are for the design, manufacture and project management work for Parsons Turbine Generators.

MAJOR ENGINE ORDERS FROM UPS AND BRITISH MIDLAND

United Parcel Services of the USA has selected 1221-535 engines to power their new Boeing 757 aircraft. The value of the business to Rolls-Royce is £93 million. In the UK, British Midland placed a £70 million order for Tay engines to power its Boeing 707 and Fokker 100 aircraft.

MOD PLACES £140 MILLION ORDER

A £140 million contract from the Ministry of Defence for the next generation of bridging for the Army has been won by Thompson Defence Projects - part of the Rolls-Royce Power Group. The sales potential of the bridging system is expected to be substantial.

INDUSTRIAL TRENT GAS TURBINE LAUNCHED

The industrial version of the Rolls-Royce Trent aero engine has been officially launched and a first customer announced. The Trent will be used for land-based power generation and will have the highest efficiency of any industrial gas turbine in the world.

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INSIDE

Stora swings back into black

Stora, Europe's leading pulp and paper group, swung strongly back to profit in the third quarter of 1993. Profits after financial items for the three months were SKr264m (\$81.5m), compared with a SKr333m loss in the same 1992 quarter. Page 18

Cleaning up in India

Unilever and Procter & Gamble, champions of soaps and detergents markets around the world, are preparing to do battle in a country with 800m potential consumers. Not far behind them are other multinationals, including Henkel and Beiersdorf of Germany and Kao of Japan. Page 19

Swift rebate to customers

Swift, the electronic network owned by 2,000 banks, yesterday responded to growing competition to handle cross-border payments by announcing a 20 per cent rebate for its customers. Page 20

Channel tunnel claim settled

A row between Bombardier, a Canadian supplier of trains for the Channel tunnel, and Transmanche Link, the main contractor, over a C\$746m (\$565m) claim to cover cost overruns has been settled, the two sides announced. Page 21

British Midland in SAS link

British Midland Airways, the second largest UK carrier, is strengthening its relationship with Scandinavian Airlines System by taking over SAS routes from the UK to Scandinavia as well as eight SAS Boeing 737-500 aircraft. Page 23

Bitter fruit of peace process

Farmers in Israel are worried they might be hampered with cheap fruit. Their counterparts in the Gaza strip can produce high quality fruit and vegetables at half the cost in Israel. And the peace process means free trade is an imminent prospect. Page 24

Sprint

An article on November 15 referred to an "alliance" between Sprint and Unisource. Sprint in fact has a value-added network inter-connection agreement with Unisource, not a formal alliance.

A shock in New Zealand

The New Zealand stock market is taking its time to recover from a severe blow received following this month's general elections. Businessmen whose identities are still secret had invested millions in a massive advertising campaign which had warned everyone of the dangers of abandoning FFP. After the election, the initial reaction was that the business community had got the worst of all outcomes. Back Page

Companies in this issue

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Chief price changes yesterday

FRANKFURT (DM)		Parit Price	912 + 21
Alm	944 + 14	Deutsche Bank	329.5 + 11.5
Alfa	245 + 5.5	Deutsche Post	
Alm	910 + 12	Deutsche Telekom	780 - 10
Alfa	855 + 27	Deutsche Telekom	27.2 - 0.2
Alfa	855 + 27	Deutsche Telekom	440 - 10.5
Alfa	855 + 27	Deutsche Telekom	
Alfa	855 + 27	Deutsche Telekom	
Alfa	855 + 27	Deutsche Telekom	
Alfa	855 + 27	Deutsche Telekom	

New York prices at 12.30

Alm	88 + 4	Deutsche Telekom	230 + 32
Alfa	82 + 2.5	Deutsche Telekom	143 - 30
Alm	100 + 13	Deutsche Telekom	215 - 90
Alfa	152 + 8	Deutsche Telekom	594 - 124
Alm	552 + 25	Deutsche Telekom	300 - 23
Alfa	558 + 33	Deutsche Telekom	226 - 40
Alm	2170 + 77	Deutsche Telekom	277 - 13
Alfa	324 + 39	Deutsche Telekom	318 - 40
Alm	42 + 8	Deutsche Telekom	315 - 40
Alfa	42 + 8	Deutsche Telekom	315 - 40
Alm	42 + 8	Deutsche Telekom	315 - 40

Deutsche Bank's Italian arm expands

By Haig Simonian in Milan

Banca d'America e d'Italia (BAI), Deutsche Bank's big Italian subsidiary, is paying L470bn (\$277m) to buy a controlling 58.07 per cent stake in Banca Popolare di Lecco (BPL), a profitable northern regional bank.

BAI will also have to mount a compulsory offer to minority shareholders in BPL, which is quoted on Milan's unlisted securities market, at the L15,279 a share. It is paying the bank's controlling shareholder, Banca Popolare di Novara. The offer will

Banca d'America e d'Italia to pay L470bn for controlling stake in Banca Popolare di Lecco

add an estimated L340bn to the transaction.

Final pricing, and terms of the public offer, will only be established in early April 1994, after a due diligence examination of BPL's accounts.

The deal is the biggest single investment by Deutsche Bank in Italy since its December 1988 takeover of BAI for \$603m. Since then, the Italian subsidiary has

expanded its branches. Last year it made an unsuccessful bid for Citibank's southern Italian retail banking operation.

The purchase comes at a time of ferment among Italy's medium-sized regional banks, which have tended to steer clear of the big loan-loss provisions now being made by the country's larger financial institutions.

Banca Popolare di Verona, a

leading north Italian regional bank, has launched an unprecedented hostile bid for Banco San Geminiano e San Prospero, a medium-sized bank based in Modena. Separately, the Parma savings bank last week confirmed it was in talks to buy Credito Commerciale, a slightly bigger Milan-based counterpart.

In some cases, as in the BPL and Credito Commerciale deals,

the once-inconceivable sales of prized subsidiaries has become necessary to staunch financial difficulties at their parent companies. In the case of Banco San Geminiano, high profits and good geographic coverage have drawn the unwanted attention of an ambitious neighbour.

BPL has about 1,200 staff and 100 branches in Lombardy, Italy's richest region. The bank, which has total assets of about L6,000bn, will continue to operate independently of BAI. BAI now has around 150 branches nationwide and about 3,000 staff.

Euro Disney's refinancing will be a game of financial poker, writes Alice Rawsthorn

Poisoned apple within the magic kingdom

Mr Michael Eisner, chairman of Walt Disney, marked the occasion of his signing of the agreement in 1987 to open the EuroDisneyland theme park in France, by presenting Mr Jacques Chirac, then the French premier, with an original slide from a Disney cartoon - the witch handing the poisoned apple to Snow White.

Roller-coaster ride for Euro Disney investors

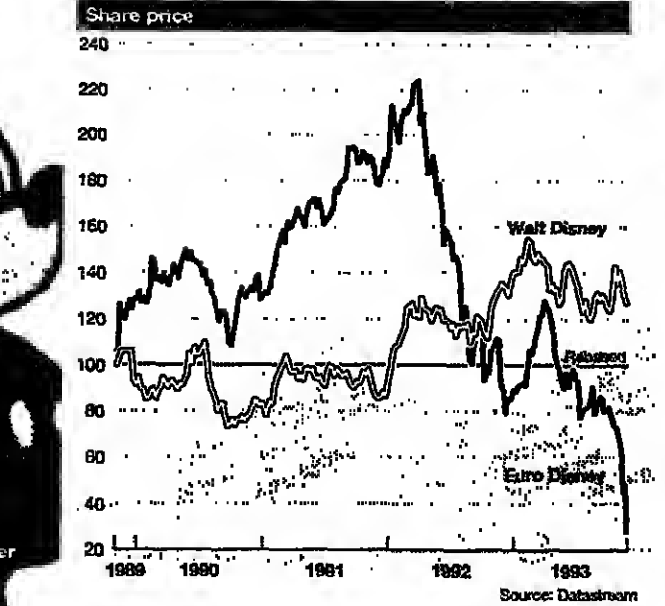
is burdened after exceeding the construction budget for EuroDisneyland and the drain on cash-flow resulting from its trading difficulties.

Euro Disney says it is still self-financing, but admits that it is likely to run out of money early next year. Disney has agreed to bail it out, but has stressed it will only do so for "a limited period" to enable Euro Disney to restructure its finances "by spring 1994".

The main aim of Disney and Euro Disney, advised respectively by Lazard in New York and S.G. Warburg in London, is to reduce Euro Disney's debt to a manageable level. Analysts suspect that they hope to halve the debt to around FF10bn. This could be achieved by a combination of a debt-for-equity swap by the banks; by bringing in new equity partners on a deeply discounted



Disney's main negotiating weapon against the banks is to threaten to close EuroDisneyland unless they agree to rescue it. In theory Disney could afford to do so. Indeed it could argue that it cannot afford not to, given that



FFr20.3bn to Euro Disney. The banks are gambling that Disney, which until the present debacle was seen as one of the US's most successful companies, would be loathe to tarnish its golden reputation by admitting defeat in Europe. Once the steering committee is in place they are expected to press Disney to play its part in alleviating Euro Disney's financial plight.

Disney would, of course, be expected to participate fully in a rights issue but it is highly unlikely that it would agree to provide further capital. If it raised its stake above the present level of 49 per cent it would, under US accounting regulations, have to consolidate Euro Disney's debt on to its own balance sheet.

However the banks could try to force Disney to reduce its own income from Euro Disney. The US parent has already agreed to waive its "management fee" of 3 per cent of Euro Disney's reve-

Banks are bracing themselves for a tense game of financial poker against Disney, which has become renowned as one of the toughest companies in the US

base; and a rights issue for existing shareholders.

Such a package would involve heavy dilution for existing investors but should be enough to save Euro Disney. Ms Rebecca Winton-Stanley, analyst at Morgan Stanley in London, calculates that Euro Disney could trim its net loss to FF1bn in 1993-94 and break even two years later.

Disney's share of Euro Disney's losses dragged it into the red with a net loss of \$77.8m in the fourth quarter of its last financial year. Ms Margo Vignola, analyst at Salomon Brothers in New York, described Euro Disney as an "albino" for its US parent.

If Disney did withdraw, the banks would have to write off their entire exposure of

Metallgesellschaft may pass dividend after fall into loss

By David Walker in Frankfurt

Metallgesellschaft, the German metals, mining and industrial conglomerate, yesterday blamed a combination of falling metals prices, difficulties in the motor industry and restructuring costs for a swing from profits of DM245m last year to a pre-tax loss of DM347m (\$205m) in the year ended September.

Mr Heinz Schimmelbusch, group chief executive, said that Metallgesellschaft would probably not pay a dividend for 1992-93, making the group one of the handful of leading German companies to pass their dividend this year.

However, he predicted that the group would return to profit this year, after extensive cost-cutting and further disposals.

He defended his previous ambitious acquisition strategy - which culminated in 1992 with the DM1.45bn acquisition of the non-paper activities of Feldmühle Nobel - saying that without large purchases the impact of the downturn would have been far more severe.

He said that the disposals programme, which has been under way for at least a year, was not a corrective to the earlier diversification but was to focus on five clearly defined business areas, ranging from metals trading to plant construction and environmental services.

Mr Schimmelbusch said that sales of non-core businesses led to a book profit of DM378m in 1992-93 and are set to bring in another DM800m this year.

The chief executive said he was

confident of cutting costs by DM1.1bn in the three years to 1995, half of which is to be achieved by losing more than 10,000 jobs. In the last two years the group has cut 7,400 jobs, 12 per cent of the workforce. Restructuring will concentrate on the Kolbenschmidt car components company and metals production.

The reported loss for the year - achieved on group turnover unchanged at DM25.5bn - included losses of DM290m on the Schiess machine-tools company which has subsequently been sold.

It was also hit by DM155m one-off restructuring costs. The contribution from asset sell-offs fell from DM711m in 1991-92, with the result that underlying losses halved last year.

Tate & Lyle beats forecasts

By Maggie Urry in London

Record UK profit and currency gains helped Tate & Lyle to increase annual pre-tax profits by 17.4 per cent to £222.5m (\$330m). That was above market expectations, which had been revised downwards in September when the sweeteners company warned of difficult trading conditions in the North American sugar market.

The shares gained 9p to 395p. A final dividend of 8.7p is proposed, which would raise the total from 13p to 13p, in line with Tate's policy of a "progressive" dividend.

Mr Neil Shaw, chairman, said the outlook for the current year was encouraging, with productivity gains and improved trading conditions expected.

He emphasised that Tate is pri-

marily a processor of agricultural products and is exposed to influences such as the weather, crop sizes and government regulation. The group's main problems in the year were a bumper sugar beet crop in the US, leading to lower prices and government imposed limits on sales, and a glut of potato starch in Europe, hitting prices there. In each case, conditions were expected to improve in 1994.

Mr Shaw said he was "very pleased" by the approval given to the NAFTA trade agreement in the US. Tate plans to expand its interests in Mexico, where it has a starch plant.

Tate is expanding in many developing countries, where the growth in consumption of its products is concentrated. In central Europe, it has set up a number of joint ventures, although it

has yet to earn a normal return on its investment. Tate is now looking to establish joint ventures in China and south-east Asia.

Mr Paul Lewis, finance director, said cash-flow had been strong. Net debt fell by £15m to £627m, although the weak pound meant the translation of the group's debt, which is largely in US dollars, added £94m to borrowings.

Gearing was 78 per cent at the year end, down from 89 per cent a year earlier, in spite of a £20m write-down of UK property values. Mr Lewis said with interest cover of 5.7 times, up from 5, and given that it had written off £500m of goodwill over the years, the group was comfortable with its balance sheet.

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Lex, Page 16

Nestlé points to rising sales

By Ian Rodger in Vevey, Switzerland

Nestlé, the world's largest foods group, said its sales in the first 10 months of 1993 were up 6.2 per cent at SFr46.6bn (\$31.6bn), because of a slight acceleration of growth in the second half.

Mr Helmut Mancher, chairman, speaking at Nestlé headquarters in Vevey, said the directors were "satisfied" with progress this year in the face of sagging sales in Europe, the group's main market area.

Mr Mancher indicated that the sales growth trend for the full year was established, and that net income would also rise to a similar extent. The net margin would remain at last year's level of 5 per cent of sales, he said. He expected further sales and profit growth in 1994.

He dismissed suggestions that consumers were turning away from branded products. "To the extent that these products offer the consumer innovation and convenience, and provided that their prices are competitive, they will continue to benefit from consumers' loyalty," he predicted.

Mr Reto Domeniconi, finance director, pointed out that Nestlé had been able to raise its prices an average 2.4 per cent in the first 10 months (excluding countries with hyperinflation), which proved the strength of its brands.

The real internal growth of Nestlé's sales remained a weak 1.2 per cent in the first 10 months, well below the 3.3 per cent for 1992. Most of the rest of the 5.2 per cent growth came from acquisitions.

Sales in Europe, which traditionally accounts for half of the group's sales, fell 1 per cent to SFr21.8bn, while sales in North and South America rose 10 per cent to SFr16.9bn and those in the rest of the world jumped 14 per cent to SFr7.9bn.

Mr Mancher said: "We are the only large food group to have a quarter of our sales in countries other than the US and Europe."

Nestlé's net borrowings had eased from a peak of SFr10.4bn in June following last year's Perrier mineral water acquisition to SFr4.4bn at the end of October. Mr Domeniconi said they would fall to about SFr3.9bn by the year-end.

Mr Domeniconi said Nestlé would probably raise new debt capital within the next few months to take advantage of low interest rates.

Observer, Page 15

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INTERNATIONAL COMPANIES AND FINANCE

Renault chief stands firm on terms of Volvo merger

By Kevin Done and John Riddling in Paris

No changes can be expected to the terms of the proposed merger between Renault and Volvo, according to Mr Louis Schweitzer, chairman of Renault.

"The terms and conditions are final from the French side," Mr Schweitzer told the Financial Times late on Tuesday. "The deal is fair and we have fully answered the concerns of Volvo shareholders. This is it, there is a time for decisions," he said.

Mr Schweitzer yesterday met with a group of leading Volvo shareholders in Paris in an attempt to counter Swedish resistance to the proposed merger.

Opposition from Volvo shareholders has already forced the postponement of a vote on the deal - originally due earlier this month. A new vote has been set for December 7. A group of 12 Swedish institutions controlling 44 per cent of the votes in the Swedish company hold the key to approval of the deal.

The French government has sought to win backing for the merger by giving written commitments to Volvo shareholders concerning the two most controversial aspects of the



Louis Schweitzer, 'shareholder concerns fully answered'

deal: the timetable for privatisation, and the use of a golden share to be held by the state.

Last week, Mr Edouard Balladur, the French prime minister, wrote to Mr Carl Bildt, his Swedish counterpart, stating the French government's intent to privatise the merged company next year, and pledging that the golden share would not be used against Volvo.

Mr Schweitzer warned that a rejection of the planned merger between Renault and Volvo would damage existing co-operation between the two automotive groups, which are

already engaged in a far-reaching alliance based on minority cross shareholdings.

"The momentum would disappear," said Mr Schweitzer. "You cannot work together without a strong sense of direction. And there would be none." He said recent disruption to the merger process had already slowed and destabilised efforts to build a joint management organisation.

The Renault chairman said he had been surprised by the scale of opposition from Swedish investors. "Emotions built up in a rather violent way and have overshadowed the issues and the progress we have made. It has become a political issue in Sweden," he said.

Mr Schweitzer stressed the industrial logic of the proposed merger, due to take effect from the beginning of next year. The cost-savings from joint purchasing, research and development and economies of scale would strengthen the two companies' car and truck operations.

Mr Schweitzer said the European automotive markets showed signs of bottoming out. He forecast a modest recovery in demand from mid-1994.

He said he was confident that Renault would remain profitable despite the protracted downturn.

Dutch paper group falls to Fl 9m loss in third term

By Ronald van de Krol in Amsterdam and Robert Gibbons in Montreal

The continued weakness of European economies pushed KNP BT, the Dutch paper and packaging group, into a net loss of Fl 9m (\$4.7m) before extraordinary items in the third quarter of 1993, compared with a net profit of Fl 7m the previous year.

The figures took results for the first nine months to a net loss of Fl 25m, compared with a net profit of Fl 168m the year before.

KNP BT, which was formed from a three-way domestic merger in the Netherlands earlier this year, has already said that it plans to take a Fl 300m charge in 1993 to cover a restructuring.

The company said that market conditions were similar to those of the first two quarters. The paper sector continued to suffer from overcapacity and price pressure, while the graphic systems sector was still feeling the effects of reduced demand in southern Europe.

However, the company said that there were some signs of a hesitant improvement in business conditions.

The figures, which were slightly better than analysts had forecast, were released after the close of trading in Amsterdam.

Last week, the company's shares fell after a Belgian newspaper said that KNP BT's single highest shareholder, Macmillan Bloedel, the Vancouver-based forest products group, wanted to sell its 16 per cent stake.

Macmillan Bloedel said yesterday that it would sell its stake "when the price is right". Mr Glen Ferguson, Macmillan Bloedel's vice-president and treasurer, said the sale of the KNP stake would depend mainly on market value and "it may be quite a way down the road".

In September, the Canadian company took up its share of a KNP BT rights offer, for C\$55m (US\$41.5m) to maintain its 16 per cent stake.

Stora swings back to the black

By Christopher Brown-Humes in Stockholm

Stora, Europe's leading pulp and paper group, swung strongly back to profits in the third quarter of 1993, with a sharp reduction in financial costs offsetting persistent price weakness in its main markets.

Profits after financial items for the three months were SKr284m (\$31.5m), compared with a SKr333m loss in the same 1992 quarter. The turnaround took profits for the first nine months to SKr294m from a SKr498m deficit a year ago.

Mr Lars-Ake Helgesson, Stora president, said the market situation was "largely unchanged", with prices stabilising at low levels during the third quarter.

"The general economic picture in western Europe is weak, particularly in Germany," he said.

The benefit of the weaker krona lifted sales for the first nine months to SKr37.7bn from SKr35.4bn. However, operating income only increased by SKr5m to SKr60m.

The real impact on the result came from the drop in financial costs, to SKr56m from SKr120m. The group has benefited from lower interest rates

and a better trend within its financial services arm.

Cost-savings and new efficiency measures have helped the group compensate for lower prices. The company said it had already cut costs this year by SKr1.7bn. It expects savings for the full year to amount to SKr2bn, the same as in 1992.

The group did not give a full-year forecast, although it will show a clear improvement on last year's SKr1.42bn loss. Deliveries of the group's main products in 1993 are expected to be largely unchanged on last year.

Mr MaDo, another Swedish forestry group, said losses had nearly halved in the first nine months of 1993, to SKr476m from SKr925m a year earlier.

It said price pressures, losses from French operations, and heavy interest costs were keeping it in the red, even though the weaker krona and rationalisation had enhanced its competitiveness.

The group effectively predicted a full-year loss of around SKr600m by saying its final-quarter deficit would equal the SKr123m level struck in the third quarter.

The 25 per cent fall in the value of the krona helped nine-month sales rise to SKr12.55bn.

Kwik Save warns of tougher supermarket competition

By Neil Buckley in London

Kwik Save, the UK's leading discount food retailer, yesterday unveiled a 14 per cent rise in pre-tax profits to £196.1m (\$188m), but admitted the supermarket price war would make it hard to maintain its sales and profits growth of recent years.

Mr Graeme Bowler, Kwik Save's chief executive since June, said there had been an "unprecedented surge" in price competition as supermarket chains had woken up to the changing nature of the UK food market.

"It will be harder to maintain the rate of growth in sales and profits we have experienced over the last five years," he conceded.

Mr Bowler countered City fears that Kwik Save had lost its edge on price by extending its range. He said its wider range set it apart from the "limited offer of mainly unknown brands" provided by newcomers to the UK discount market such as Germany's Aldi, Denmark's Netto, and France's Ed.

Kwik Save's sales for the year to August 28 increased 14.4 per cent to £2.68bn. Some 8.4 percentage points of the increase came from existing stores, with "no discernible inflation" in selling prices.

New stores added 6.1 points, with a handful of store closures removing 0.1 points.

Mr Derek Pretty, finance director, said gross margins were down slightly. The operating margin fell from 4.2 per cent to 4 per cent.

Mr Pretty also emphasised the group's strong cashflow, which enabled it to spend £103.2m on 90 new stores, store refits and new systems, without borrowing. Capital spending is expected to increase to £120m next year, with up to 80 new stores to be added to the existing 814.

Income from concessions within Kwik Save stores selling fresh foods - an important part of the Kwik Save formula - increased 23 per cent.

Earnings increased 15.1 per cent to 55.4p. The final dividend was 12.5p, bringing the total for the year to 13.3p, up 14.4 per cent. The shares closed down 9p at 873p.

Lex, Page 16

France confirms oil sale agenda

By John Riddling in Paris

Mr Edmond Alphandery, the French economy minister, yesterday confirmed that Elf Aquitaine, the oil group, would be the first company to be privatised next year. He said the government's stake may be sold in tranches.

"It is a large amount, and it is not impossible that it could be sold in bits," Mr Alphandery said, adding that no decision had yet been taken on the process of the sale.

The government's 50.8 per cent stake in Elf Aquitaine has an estimated value of FF950bn (\$355bn), much larger than the FF280bn raised through the privatisation of Banque Nationale de Paris, and the FF150bn from the sale of the state's holding in Rhone-Poulenc, the chemicals group.

Industry observers say they expect the sale to be done in one block, although payment for shares could be done in instalments.

Mr Alphandery was speaking after the government launch of a tender offer by which companies can bid for stakes in Banque Paribas, the small private bank to be sold as part of the privatisation programme.

The sale of 80 per cent of the shares in Banque Paribas, which is due to be completed by the beginning of 1994, will not be open to a public offer. It is expected to raise about FF11bn.

Nobel little changed at SKr298m

By Hugh Camery in Stockholm

Nobel Industries, the Swedish chemicals group to be taken over by Akzo of the Netherlands, yesterday announced profits little changed at SKr228m (\$25.5m) for the first nine months of 1993, from SKr304m last time.

However, the company said it was benefiting from low interest rates and the sharp fall this year in the value of the Swedish krona. It predicted that full-year profits would

"improve somewhat" over the 1992 result of SKr237m.

Nobel and Akzo announced earlier this month an agreed deal under which Akzo would pay SKr16.6bn to take control of the Swedish company. Nobel is 73 per cent owned by the state through Securum, a "bad bank" set up to group the bad debts of the state-owned Nordbanken.

When combined, Akzo-Nobel will be the world's biggest paints group and the second largest pulp and paper chemicals producer.

Nobel said currency hedging had blunted the effect of the falling Swedish krona, knocking SKr247m off operating profits in the nine months. The operating profit was down at SKr181m from SKr193m last time, in spite of a rise in sales, to SKr171bn from SKr155.5bn.

However, the group, which has most of its production in Sweden, said the currency fall had strengthened its competitiveness. It said the unwinding of its hedged position would lead to stronger results in the first half of 1994.

PowerGen move to cut prices

By Michael Smith in London

PowerGen, the UK power company, yesterday floated the idea of a significant change to price determination in England and Wales's electricity trading pool as it revealed a 10 per cent rise in pre-tax profits to £108m.

The suggestion comes ahead of a decision later this year by Professor Stephen Littlechild, the industry regulator, on whether to refer PowerGen and National Power, the other large UK generator, to the UK Monopolies and Mergers Commission. His inquiry has been prompted by sharp pool price rises.

Mr Ed Wallis, PowerGen chief executive, said there was a strong argument in favour of the main determinant of the

pool price being the average price of all generating plant needed to run the system.

The main determinant of the existing system is the "marginal" price, that is the cost of the most expensive plant. Invariably the marginal plant is owned by either National Power or PowerGen, who critics say have too much influence. Mr Wallis said moving to an average price system would overcome the perception that two big players dominated.

PowerGen's interim figures for the six months to October 3 showed the company's turnover fell 3 per cent from £1.3bn to £1.27bn. Earnings per share were up 13 per cent to 9.71p (from 8.58p) and the dividend, already announced, rises 18 per cent from 3.35p to 3.95p.

Mr Wallis said market share fell marginally from 26.3 to 26.1 per cent and predicted it would fall to 22 per cent by 1995. This compares with 30 per cent at privatisation three years ago.

The half year's performance was helped by a reduction of 200 in job numbers to 5,770 and a fall in coal stocks from 15.5m tonnes to 14.25m.

The company expects to cut stocks to 5m tonnes by 1997-98, with the bulk of the reductions achieved in the next two years. An adjustment of about £15m is likely for pensions at the year-end results. Of the half year charge of £13m, some £5m related to liability and damage claims.

Scottish Power, Page 22

REPOLA

Repola Corporation, comprising of three industrial groups

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In accordance with Condition 3(B) of the Terms and Conditions of the above mentioned Bonds (the "Bonds") and further to the notice which appeared in the Financial Times on 30th September 1993, the rate of interest in respect of the Bonds has been determined as of 23rd November 1993.

From 1st December 1993 the Bonds will bear interest at the rate of 5.80 per cent, per annum, payable annually in arrears on 1st December in each year, the first such payment of U.S.\$58 being made on 1st December, 1994 against presentation of coupon number 13.

Hambros Bank Limited
25th November, 1993

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of 1993/2005

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Interest Rate: 5% p.a.

Coupon Amount: U.S.\$ 125.00 per U.S.\$ 5,000 Note

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REGISTRAR

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New York, NY 10260-0023
USA

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Dated: November 25, 1993

By: Morgan Guaranty Trust Company of New York
as Trustee

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CONTRACTORS LIMITED
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business: Tiling and Floor Tiling Contractors.
Tobin classification: 25. Date of appointment of
Joint Administrative Receivers: 12 November
1993. Name of person appointing the Joint
Administrative Receivers: Lloyd's Bank plc.
Lynn Robert Bailey and Stephen Jonathan
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Floating Rate Notes due 2003

In accordance with the provisions of

the Notes, notice is hereby given that

the Rate of Interest for the six

month period ending 24th May,

1994 has been fixed at 5.125%

per annum. The interest accruing

for such six month period will be

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Note, and U.S.\$ 257.67 per U.S.

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Note on 24th May, 1994

against presentation of Coupon

No. 2.

Union Bank of Switzerland

London Branch Agent Bank

22nd November, 1993

ISSUE OF UP TO US \$600,000,000

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FLOATING RATE NOTES DUE 1996

OF WHICH US \$350,000,000 IS BEING ISSUED
AS THE INITIAL TRANCHE

In accordance with the provisions of the above mentioned
Floating Rate Notes, the rate of interest for the period
November 24, 1993 to May 24, 1994 has been fixed at
3.4175% per annum.

The interest payable will be US\$ 859.12 per note of 50,000

and US\$ 4,295.61 per note of US\$ 250,000.

Fiscal Agent

BRUNNEN INTERNATIONAL
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INTERNATIONAL COMPANIES AND FINANCE

Warner-Lambert cuts drugs dependency

Paul Abrahams on the US group's efforts to counter the effects of healthcare reform

Warner-Lambert, the US drugs and consumer products group which this week announced a \$480m restructuring plan, is going through the pharmaceuticals wringer.

Like other companies, Parke-Davis, its drugs subsidiary which is the 14th largest pharmaceutical group in the US, has been hit by healthcare reforms in Europe and America. The speed of changes in the US, in particular, has taken the company by surprise, admits Mr Lodewijk de Vink, president and chief operating officer.

But the subsidiary's performance has also been affected by problems specific to it. Its growth has been severely limited since January, when the US patents of its best-selling drug, Lipid, a cholesterol-lowering treatment with sales last year of \$566m, expired.

Revenues have also been undermined by running foul of the US Food and Drug Administration, which stopped production at six of its US and Puerto Rican plants.

The company believes this will cost it \$150m in lost sales over this year. In addition, the group's tax rate is set to rise next year because of the US government's decision to limit tax credits for manufacturing in Puerto Rico.

Warner-Lambert's efforts to counter the expected decline in Lipid sales by launching new drugs have been dogged by problems.

Cognex, a treatment for Alzheimer's Disease, had a rough ride through the FDA, being rejected twice before finally being licensed in the US this September.

New York analysts EKS & Co believe the medicine could be held back by its limited efficacy and side-effect concerns, and annual sales could struggle to only \$100m or reach \$500m.

Warner-Lambert's latest response is to announce a further round of restructuring and rationalisation. About 2,800 of the group's 34,000 employees will leave the company. That follows job losses of 2,700 announced earlier in 1991.

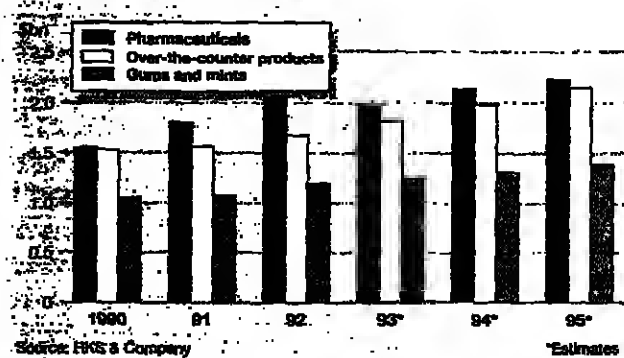
Research and development spending - running at 18 per cent of drugs sales - is not sacrosanct, says Mr de Vink. "Research used to be a cost centre that was never questioned. We need to make some hard choices. We can't fish in every therapeutic pond, but I want more lines in each pond," he explains.

"The days of macho R&D spending - when more was necessarily better - are over. The industry's current level of spending on R&D is clearly unsustainable," he insists.

Although the pharmaceuticals division is clearly in trouble, the group is being supported from unexpected quarters.

Its confectionery operations and over-the-counter (OTC) non-prescription medicines business, with products rang-

Warner-Lambert sales



Source: EKS & Company

ing from Trident chewing gum to Clorets breath-fresheners, have traditionally been regarded as a burden because of their low margins compared with prescription pharmaceuticals.

This is a \$60m company of which only a third is pharmaceuticals. The other two-thirds are not affected by healthcare reforms or patent expiries. Our diversity used to be a weakness. Now it's a strength," says Mr de Vink.

Warner-Lambert has successfully created strong international brands capable of generating a steady, though unspectacular, stream of earnings growth. Some of its products, like Listerine mouth-wash, are more than 50 years old, but are still growing. The company actually created the mouth-wash market in Japan when it

launched the product there.

The group is still expanding its consumer business through acquisition. In May it bought the Wilkinson Sword wet shave operations, building a \$500m razor and blade business.

Meanwhile, Warner-Lambert has continued to build its OTC medicines business, the largest in the US. In July, the company secured access to Glaxo's Zantac and Wellcome's Zovirax, the two most important drugs capable of switching status from prescription only to OTC.

Mr de Vink's strategy to deal with expiry patents is to drive Warner-Lambert's generics business harder.

"Some of the returns are not bad. And we don't have to do the R&D," he explains. The operations will be more aggressive in future in an effort to keep plant operating at capacity.

ity. He does not exclude manufacturing drugs developed by other companies whose patents have expired.

The group's pharmaceuticals portfolio is, however, looking thin, apart from Cognex and Accupril, an ace inhibitor heart drug, which is doing well thanks to aggressive pricing. It should become a \$250m product.

Meanwhile, Neurontin, an epilepsy treatment, has been filed with the FDA but is not yet approved. Mr de Vink says it should generate at least \$100m a year.

Mr de Vink says he wants more products in the pipeline. "The typical life-cycle of a drug could be falling to only four or five years and if that is the case you have to have a lot more new products," he explains.

The company is planning research alliances with other higher tier consumers. As a result, the electric power companies will lower rates for an 11-month period starting this month, and face a drop in income for the full year.

Tokyo Electric Power said total power consumption for the April-September period fell 0.7 per cent from a year earlier, depressing revenue from electricity sales. For the full year, the company expects a 14.8 per cent fall in pre-tax profits to Y185bn, on a 0.2 per cent rise in sales to Y4,710bn. The company expects the rate cuts to reduce its income by Y38bn.

Lower demand takes its toll on electricity groups

By Emiko Terazono in Tokyo

Japan's electric power utilities were hit by a fall in demand for air conditioning due to the cold summer and the economic slump.

Lower fuel costs, due to the stronger yen and a fall in crude oil prices, could not cover the decline in revenue from lower electricity demand, and eight of the nine electric power companies posted lower interim pre-tax profits for the half-year to September.

In spite of strong opposition from the utilities, the government has ordered electricity and gas rates to be cut in order to pass on the benefits of the higher yen to consumers. As a result, the electric power companies will lower rates for an 11-month period starting this month, and face a drop in income for the full year.

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Kansai Electric Power said sharp increases in repair-related spending and depreciation costs also squeezed profits. The company expects full year pre-tax profits to fall 19 per cent to Y100bn on a 0.1 per cent rise in sales to Y2,370bn.

Chubu Electric Power said its decline in pre-tax profit was due to a heavier interest burden from increased capital investments. For the full year to March, the company expects a 26 per cent drop in pre-tax profits to Y75bn on a 0.6 per cent fall in sales to Y1,850bn.

Kyushu Electric Power saw profits fall for the first time in three years due to typhoons and heavy rains. The company, which spent Y28.4bn on repairs, sees an 8 per cent fall in full year pre-tax profits to Y76bn on a 1.4 per cent rise in sales to Y1,280bn.

INTERIM RESULTS 1993-94

	Sales (¥bn)	Change (%)	Pre-tax profit (¥bn)	Change (%)
Tokyo	2,347.1	-0.1	58.5	-12.0
Kansai	1,203.7	+0.1	49.1	-3.7
Chubu	935.4	-0.0	38.6	-15.4
Kyushu	651.9	+1.5	28.1	-6.7
Tohoku	651.2	+2.7	29.0	-0.6
Chugoku	487.4	-0.8	21.3	-4.1
Hokkaido	285.8	+5.8	26.7	+58.1
Shikoku	234.5	+1.4	19.8	-2.2
Hokuriku	225.2	+0.8	9.8	-27.7

Source: Company results

Japanese underwear group advances 5%

By Emiko Terazono

Wacoal, Japan's leading women's underwear manufacturer, saw firm interim profits due to rationalisation of sales and advertising costs, but lower sales due to sluggish demand for its nightwear and sportswear.

The company posted a 5.1 per cent rise to Y6.6bn (\$90m) in pre-tax profits for the first six months to September.

Sales slipped 1.7 per cent to Y65bn, but after-tax profits rose 14.4 per cent to Y3.5bn.

Its mainstay underwear sales rose 4.8 per cent to Y49.8bn.

However, nightwear sales fell 12 per cent to Y6.1bn and

its outerwear and sportswear sales plunged 25.6 per cent to Y3.6bn.

Wacoal said its profits offset the fall in interest income due to lower interest rates.

Interest gains plunged 39.6 per cent to Y88bn for the first half.

Company officials said profits rose on the after-tax level as the company posted special gains of Y803m thanks to the sale of securities holdings.

The company expects continued sluggish demand for clothing during the second half, and foresees a 2.3 per cent decline in full-year pre-tax profits to Y10.3bn on a 0.4 per cent rise in sales to Y128bn.

After-tax profit is forecast at Y5.2bn, up 2.1 per cent.

Guoco plans listing for bank subsidiary

By Simon Holberton in Hong Kong

Guoco Group plans to list Dao Heng Bank, its wholly-owned banking subsidiary, early next month, company executives confirmed yesterday.

Dao Heng is Hong Kong's fourth largest bank in terms of assets and number of branches in Hong Kong. Earlier this year it acquired Overseas Trust Bank (OTB) for an estimated HK\$4.5bn (\$585m) and promised a stock market flotation later in the year.

Guoco will issue 38.52m shares to the public - equal to 5.67 per cent of the bank's

enlarged capital - at a price of HK\$21.70 each.

In addition, 151.75m shares (23.13 per cent of the bank's capital) will be offered to holders of US\$350m worth of convertible preferred stock which was issued to fund the acquisition of OTB.

The issue price represents a prospective price/earnings ratio of 14.5 on a fully-diluted basis.

Dao Heng's net tangible assets value has been put at HK\$8.46 a share.

Guoco, which is controlled by the Kwok family of Singapore, will retain a 71 per cent interest in Dao Heng.

Proton posts marginal increase to M\$135m

By Kieran Cooke in Kuala Lumpur

Proton, the Malaysian car manufacturer, has announced that its sales for the six months to September 30 1993 of M\$135m (US\$53.9m), compared with M\$130m a year ago.

Turnover rose substantially to M\$136m, compared with M\$90m previously. This was mainly due to high demand for a new model launched on the home market in mid-year.

Analysts said that the marginal rise in profit was due to the increased cost of imported parts. Proton cars are manufactured in partnership with Mitsubishi of Japan, and the company has suffered from the appreciation of the yen.

Proton has a 70 per cent share of the domestic market and is seeking to increase exports, particularly to Europe. It expects an improved performance in the second half of the financial year.

Argentine sale set to raise \$130m

By John Barham in Buenos Aires

Argentina is poised to raise more than US\$130m with the sale of the government's remaining minority stake in the semi-privatised electricity generator, Central Puerto.

Strong demand allowed the government on Monday to raise its maximum price for the shares by 8 per cent, to \$6.40. However, economy minister Mr Domingo Cavallo announced on Tuesday that the government would offer its 30 per cent stake at \$5.30 a share.

Mr Cavallo fixed the price slightly below the ceiling in order to attract longer-term buyers and to deter speculation. However, analysts expect trading in the Buenos Aires "grey" market to be fierce, given that the issue was heavily oversubscribed.

The government sold 60 per cent of Central Puerto for \$22.2m in April 1992 to a consortium led by Chilgener of Chile. The company's employees held the remaining 10 per cent.

The next semi-privatised company in line for stock market flotation is expected to be Central Costanera, a larger generator, which could be ready for an international offering in December.

The government is expected next year to offer its minority stakes in 10 gas transport and distribution companies.

Argentina plans to raise \$750m next month from the sale of global bonds, the proceeds of which will be used to refinance maturing debt. Officials had earlier indicated that the offering would be around \$500m. Pricing of the bonds should be detailed next month.

Royal Bank of Canada cuts jobs

Royal Bank of Canada plans to cut almost 3,000 jobs from its worldwide workforce in 1994 as part of its integration with Royal Trust, Benter reports from Toronto. The Bank said 1,100 jobs will be cut from Royal Trust from its 5,000 workforce, and the 142 Royal Trust branches reduced by 42.

Royal Bank said this month it planned restructuring charges of C\$300m (US\$225m) and C\$10m on streamlining. The charges, with increased provisions for losses on real estate loans, will result in a fourth-quarter loss of C\$1.50 per share.

US placing by Finmeccanica

By Helge Simonian in Milan

Finmeccanica, the Italian state-controlled engineering group, yesterday completed the second of two cash-raising exercises by placing 40 per cent of its Union Switch & Signal subsidiary in the US.

US&S was bought by Finmeccanica's quoted Ansaldo Trasporti unit in 1989 to broaden its coverage of the railway equipment and signal business.

The flotation, raising almost \$40m through the sale of 3.25m shares at \$15 each, will give

Ansaldo a \$30m boost via a special one-off dividend. The remaining proceeds will be used to reduce US&S's short-term debt.

Yesterday's transaction echoes last week's US initial public offering of Finmeccanica's Elsas Rail Process Automation subsidiary.

The transaction involved the flotation of 8.12m shares at \$19 each, raising more than \$150m.

About 35 per cent of the total share capital was placed, with an option to sell a further 5 per cent. The proceeds will be used to cut debt at both Elsas Rail

and the Finmeccanica parent company.

Both deals are part of a rapid income raising drive by Finmeccanica, which is facing a depressing year because of the recession and heavy losses at its Alenia aerospace subsidiary.

Finmeccanica announced a first half pre-tax loss of L1,590bn (\$94.5m), against net profits of L1,810.5bn in 1992.

Analysts say the group should reach break-even in the full year, boosted by the extraordinary receipts from this month's two US transactions.

Fujitsu takes control of HaL

By Louise Kehoe in San Francisco

Fujitsu of Japan is to acquire HaL Computer Systems, a California company that is developing high performance open systems computers. Previously, Fujitsu held a 44 per cent stake in the US company.

HaL will become a wholly owned subsidiary of Fujitsu and will serve as the principal development centre for advanced 64-bit open systems hardware and for operating systems products for the Fujitsu group of companies.

"This agreement is good for Fujitsu and HaL's employees

because HaL now assumes an expanded development responsibility with greater importance to Fujitsu's open systems strategy," said Mr Scott Metcalf, president of HaL.

Fujitsu also announced it had signed a contract with Dell Computer to market Dell's personal computers to corporate clients in Japan.

Dell said the move was intended to broaden the company's reach in Japan, where it has a sales force of only 30 people. Under the agreement, PFI, a unit of Fujitsu, will also provide service and support for Dell computers in Japan.

Mr Paul Allen, Microsoft co-

founder, added to his high-technology portfolio by buying a company that makes what it calls "personal viewing systems". Renter reports from Washington.

Allen's Vulcan Ventures investment group has become the second-largest investor in Virtual Vision. Privately held Virtual Vision is funded by "a group of silent investors who represent a wide range of industries in the Pacific Northwest," the company said.

Its chief product is a device that looks like a pair of eyeglasses but projects a full-screen color video image several feet in front of the user.

Goodrich to sell rest of offshoot

By Richard Waters in New York

BF Goodrich, the specialty chemicals and aerospace group, launched a public offering to sell its remaining 49.5 per cent interest in the Geon subsidiary which it floated earlier this year.

The proceeds from the sale, put at \$48m before tax, will be used to fund part of the \$300m acquisition of Emerson Electric's Rosemount aerospace

division, announced two weeks ago.

The two transactions mark the culmination of Goodrich's plan to narrow the scope of its operations to specialty businesses which it believes have good profit growth potential, and move away from cyclical businesses.

The company has said it expected earnings next year to be significantly ahead of the 60-70 cents a share projected for this year.

The 12.9m shares in Geon, a maker of polyvinyl chloride, have been offered at \$20 each.

This is below the current market price, which edged down to \$20.4 on the news, but still ahead of the \$18 at which Goodrich floated its first 13.1m shares in the company in April.

The company reported a one-off pre-tax gain of \$91.9m after the flotation, suggesting that the fourth-quarter gain from the latest sale will top \$100m.

HSBC to make HK\$3bn FRN issue

By Simon Holberton

The Hongkong and Shanghai Banking Corporation, the principal subsidiary of HSBC Holdings, is raising HK\$3bn (US\$385m) through a 10-year "collared" floating rate note in its first external fund raising since 1988.

The bond will pay a rate of interest equal to 25 basis points above the three-month Hong Kong interbank offered rate (Hibor), and is subject to a

minimum rate of 7 per cent and a maximum of 9 per cent.

Analysts said the terms of the financing appeared expensive for a bank of Hongkong Bank's quality in the market. However, it is understood that Wardley, which is arranging the issue, has developed a mechanism for hedging the 7 per cent to 9 per cent collar which will provide the bank with attractive Hibor-related funding over its life.

The bank said yesterday that

the proceeds of the bond issue will be used to develop and expand its business, pointing to planned infrastructure projects in Hong Kong, such as the building of an airport and the expansion of the colony's container port.

The bond is redeemable in six years. Its worth, to the bank as capital, however, will diminish when the bond is five years old, when the bank will have to begin to amortise 20 per cent of the bond a year.

Israel reviews bank sell-offs after Hapoalim setback

By Julian Oszanne in Jerusalem

Israel's government was yesterday reviewing its large bank privatisation programme after investors spurned the latest issue of 10 per cent of Bank Hapoalim, Israel's largest bank, offered on the Tel Aviv stock market.

The government managed only to sell 69 per cent of its 1.2m share offer, raising Shk408m (\$135m). Shk200m less than expected. A further 1 per cent of shares were sold to employees at a discounted price, raising Shk43.7m. The government's first offer of 20 per cent of Bank Hapoalim in May was oversubscribed 2.2 times and raised Shk780m.

Bankers and stock market analysts yesterday blamed the government for mismanaging the share issue and warned of similar results at next week's offer of 10 per cent of Bank Leumi, unless technical changes were made to the structure of the issue. They said the government had assured the flop by abolishing the maximum share price, leaving out underwriters and refusing

to attach options or warrants. The elimination of the maximum price on the issue meant there was no pre-sale to institutional investors.

"The new structure of the issue precluded investors that usually invest on the first day to make a quick killing. Basically, the concept of the market was if there is an availability of shares on the market at a known price then why go through the process of allocation without knowing what the price will be," said one banker.

"The problem was with the technical

structure of the issue not with the financial attractiveness of Bank Hapoalim," he added. Shares in Bank Hapoalim offered by the government in May have appreciated 30 per cent in real terms in the past six months.

The government said yesterday it was committed to next week's sale of 10 per cent of Bank Leumi, Israel's second largest bank, in spite of the failure of the Bank Hapoalim issue. But market experts said unless the structure of the issue was changed investors would spurn the Bank Leumi offer.

Battle to clean up in Indian market

Unilever and Procter & Gamble, champions of soaps and detergents markets around the world, are preparing to do battle in a country with 800m potential consumers. Not far behind them are other multinationals, including Henkel and Benckiser of Germany and Kao of Japan.

Even two years ago, the prospects of the world's largest soaps and detergents makers buying control of local competitors in India would have been unthinkable. Now, economic

Competition in soaps and detergents is growing, says Naazneen Karmali

liberalisation is freeing companies to fight for a market, which is already worth Rs20bn (\$33m) and is growing at an annual average of 10 per cent.

Mr Sushim Datta, chairman of Hindustan Lever - the Indian affiliate of Unilever, the Anglo-Dutch combine - says that competition is all set to intensify. "There's going to be a fierce battle for shelf space,"

Unilever, which has been operating in India since before independence in 1947, is buying control of the Tata Oil Mills Company (Tomco), the 75-year-old soaps and detergents company of the Tata group. In March, the boards of the two companies approved the merger of Tomco with Hindustan Lever which has annual turnover of Rs20bn, two-thirds of it in detergents.

P&G, a relative newcomer to India, last December struck a deal with Godrej Soaps, a privately-owned manufacturer with annual sales of Rs5bn. They formed P&G Godrej, a joint venture in which P&G took a 51 per cent stake. Mr Adi Godrej, chairman of the new company, says joining forces made sense because "a major competitor is a partner now."

By buying out strong home-grown brands, Unilever and P&G have deftly eliminated local competition and acquired wide-ranging distribution networks.

The partnership with Tomco gives Hindustan Lever a considerable presence in the market, with an overall share of 26 per cent in volume terms. In toilet soaps, with the addition of Tomco's soaps to its own best-selling brands, Hindustan Lever now has a 70 per cent market share. The Monopolies and Restrictive Trade Practices Commission is examining claims that the merger would make the multinational an over-dominant force in the market.

For P&G, the corporate match-making is even more significant. Before signing up with Godrej, P&G's presence in India was limited to one product - Ariel, an enzyme-based detergent concentrate powder which was launched two years ago. P&G's range now includes Godrej's detergents and soaps that collectively have a 10 per cent market share. P&G has also bought into Godrej's distribution system and has gained access to Indian soap technology. This is based on vegetable oils rather than animal fats, which are extensively used elsewhere in the world but which are taboo in India.

Ever since Lever earlier this year introduced Surf Ultra in response to Ariel, a squabble has broken out between the two companies, which has included allegations of false advertising claims and unfair selling tactics.

The concentrated powder segment that they have been quarrelling over is tiny - less than 2 per cent of the total detergent market. Hindustan Lever's general sales manager, Mr Rajendra Anja, calls it "a battle in sheer futility... it's more a prestige issue". Selling Ariel has been a strain on P&G's bottom line; in the last two years the company has suffered accumulated net losses of Rs210m.

Lever and P&G also have others to worry about: Germany's Henkel has a joint venture with Southern Petrochemical Industries; Benckiser, also German, has an office in Delhi; and Kao, the Japanese group, is eyeing the Indian market.

For Indian consumers, it means a belated rage of choice - not to mention a dazzling display of marketing from some of the top consumer products companies.

NCR reduces workforce

By Louise Kehoe

NCR, the computer subsidiary of AT&T, yesterday unveiled details of a redundancy programme to reduce its worldwide workforce by 12 to 15 per cent.

The company said it would take unspecified charges to cover the redundancies in the first quarter of next year.

NCR said it was offering voluntary severance incentives to US employees who agreed to

leave the company by the end of January.

Of the approximately 27,000 NCR employees in the US, about 25,000 are eligible for voluntary separation and 5,500 for early retirement.

Mr Jerre Stead, NCR chairman and chief executive, said the company recently announced a new, customer-focused business model, which called for fewer layers of management between NCR and its customers.

leave the company by the end of January.

Of the approximately 27,000

INTERNATIONAL CAPITAL MARKETS

Attention turns to German regional inflation figures

By Sara Webb in London and Patrick Harverson in New York

The latest batch of west German regional inflation figures provided the main focus of attention for the European government bond markets yesterday as market participants

GOVERNMENT BONDS

were anxious to see whether they would provide the Bundesbank with an excuse to lower key interest rates next month. German government bonds ended little changed, with the release of the cost-of-living figure for the state of Hesse providing the main highlight of the day.

The cost of living rose 0.3 per

cent in the month to mid-November, giving a year-on-year increase of 3.8 per cent which was in line with market expectations, dealers said.

The other west German states of Baden-Württemberg, North Rhine-Westphalia, and Bavaria are due to report their cost-of-living data over the next few days.

Consumer prices for western Germany are expected to climb about 3.7 per cent in November from a year earlier, down from the October figure of 3.9 per cent. Some market participants believe this would enable the Bundesbank to cut its key Lombard and discount rates in December - in spite of the higher-than-expected money supply figures for October which came out earlier this week.

At its repo, the Bundesbank added a net DM12.2bn to the banking system. The funds were allocated at a fixed rate of 6.25 per cent, down from 6.29 per cent the previous week.

Italian government bond prices bounced back again, with prices rising across the yield curve and making up for some of the ground lost earlier in the week.

Dealers said long-dated bonds outperformed the short end of the market, with the 10-year yield moving over three basis points to around 30 basis points, compared with about 55-60 basis points a week ago. Traders reported some selling out of the Asia Pacific yesterday, particularly in the three-to-five year area, but said some semblance of calm had

been restored to the market when it appeared unlikely that approval of the 1994 budget would be jeopardised by the recent political upsets.

Long-dated UK government bonds continued to benefit from the positive sentiment about the low inflation background yesterday, while short-dated issues drifted lower as investors ruled out the prospect of another interest rate cut in the immediate future.

After the excitement of Tuesday's half-point cut in the base rate, which prompted a flurry of activity - the gilt market experienced a somewhat calmer trading session yesterday.

Short-dated stocks closed about 1/4 point lower while long-dated issues gained nearly 1/4 point, helped by extension

trades. The moves resulted in a flattening of the gilt yield curve.

US Treasury prices held their ground in positive territory yesterday in the wake of some mixed economic news.

By midday, the benchmark 30-year government bond was up 1/4 at 98 1/4, yielding 6.26 per cent. At the short end of the market, the two-year note was unchanged at 100 1/4, to yield 4.184 per cent.

After Tuesday's big rally, investors and dealers set about consolidating their gains. There was nervousness that a round of strong economic data would spark off fresh selling, but fortunately yesterday's news on the economy was not consistent enough to drive the market lower.

Although durable goods orders rose 2.0 per cent in October - the third consecutive monthly gain - weekly jobless claims came in weaker than expected, and the University of Michigan's consumer sentiment index showed a decline to 81.3 in November from 82.7 in October.

Japanese government bond prices ended mixed with the yield curve steepening sharply in the four-to-10-year range.

Continued weakness in the Japanese stock market helped to support prices at the short end of the bond market. Money market prices edged lower as yesterday's fall in share prices once again revived hopes that the Bank of Japan will cut interest rates.

Swift offers price cuts and rebate

By John Gapper, Banking Editor

Swift, the electronic network owned by 3,000 banks, yesterday responded to growing competition to handle cross-border payments by announcing a 30 per cent rebate for its customers this year, and a 16 per cent price cut for 1994.

Swift, which passes payment and settlement messages between banks over an electronic network run from Brussels, said the price cuts would save customers BFR1.5bn next year and reduce the minimum message tariff to BFR5.

The price cuts come at the end of a year in which several consortia of banks have disclosed plans to provide customers with cheaper and faster cross-border payments. Visa, the credit card group, is piloting a new system.

Leonard Schrank, Swift's chief executive, said it was cutting prices because it faced increasing competition. Mr Schrank said Swift was facing competition not only from some of its member banks but from card compa-

nies and European telecommunications companies. "We will not be the lowest cost producer, but we will lower," he said.

Swift was founded in 1978 to transfer to an electronic network standard bank transactions which had been carried out by telex and other methods until then. It comprises both a data network, and a standard method of communicating.

The number of electronic messages carried by Swift this year rose by 12 per cent, partly because of the turbulence in currency markets. The network provides foreign exchange matching and netting among settlement services. Some competitors have argued that Swift charges too much for data transfer because its cost base is excessive. The network employs 1,100 people in 83 countries.

Among the systems now competing to transfer small payments across borders is Iban, the system run by Royal Bank of Scotland, Banco Santander, Credit Commercial de France and Banco de Comercio e Industria in Portugal.

Long-term debt ratings at Ontario downgraded by S&P

By Antonia Sharpe

Standard & Poor's surprised the market yesterday when it cut the long-term debt ratings of the province of Ontario and Ontario Hydro to double-A minus from double-A.

Yield spreads on Eurobonds issued by Ontario had tightened over the last week in the

INTERNATIONAL BONDS

hope that S&P would not cut the province's rating, which has been placed on CreditWatch with negative implications on October 4.

S&P said the downgrade reflected the weakened resolve of the Ontario government to take unpopular expenditure adjustments in order to meet its deficit targets in 1993-94 in the face of unexpected revenue

deterioration. The move reflected S&P's view that deficit targets for succeeding years outlined in the province's medium-term plan would be missed. S&P removed Ontario's rating from CreditWatch yesterday and said that the rating outlook was stable.

Yield spreads on Ontario's Eurobonds widened by a couple of basis points after the news broke. However, traders said that the news had removed the uncertainty which had been hanging over the market.

S&P's move allows Ontario to break its self-imposed exile from the Eurobond market. Syndicate managers expect the province to launch a long-dated Eurodollar offering in the near future.

There was speculation that Ontario might consider a Eurobond offering in the D-Mark sector now that international

sanctions against South Africa had been lifted. Canadian issuers shunned the D-Mark sector while the sanctions were in force because of the German banks' links with South Africa.

Elsewhere, Henderson Land, the Hong Kong property developer, raised \$200m through a widely expected offering of five-year Eurobonds. The bonds, which were priced to yield 95 basis points over US Treasuries, had a mixed reception.

Some syndicate managers said the bonds looked expensive when compared with the borrower's offering of three-year convertible Eurobonds.

If Henderson Land does not proceed with the public sale of shares in Henderson China within three years, the bonds will yield 6.6 per cent to maturity. This represents a yield spread over US Treasuries of about 280 basis points.

Lead manager Goldman

NEW INTERNATIONAL BOND ISSUES

Amount m.	Coupon %	Price	Maturity	Fee %	Spread bp	Book runner
Somerset US Dollars	8.00	98.15P	1998	0.50P	-	Goldman Sachs
Henderson Land Finance	8.00	98.15P	1998	0.50P	-	Swiss Bank Corp.
City of Upper Mersey	7.75	98.65P	2003	0.25	-	Morgan Ltd.
D-MARKING						
Norden Chemicals	1.25	100	1997	0.25	-	Deutsche Bank
PEBETAS						
European Investment Bank	7.50	101.50	1998	1.625	-	Banco Bilbao Vizcaya
YEN						
Mitsubishi Corp.	3.00	100.85P	1998	0.25	-	Bank of Tokyo
FINCHIN FRANCE						
SNFCO	6.00	98.45P	2008	0.35P	(a)	Credit Lyonnais
SWISS FRANCE						
City of Verviers	4.00	101.75	1998	-	-	Merrill Lynch
GULDBERG						
VSB Group	6.25	100.35P	2004	0.25P	-	ISW Effectenbank

Final terms and non-optional interest dates. The yield spread (over relevant government bond) is shown in the last column. (a) = Auction. (b) = Best offer. (c) = Best offer. (d) = Best offer. (e) = Best offer. (f) = Best offer. (g) = Best offer. (h) = Best offer. (i) = Best offer. (j) = Best offer. (k) = Best offer. (l) = Best offer. (m) = Best offer. (n) = Best offer. (o) = Best offer. (p) = Best offer. (q) = Best offer. (r) = Best offer. (s) = Best offer. (t) = Best offer. (u) = Best offer. (v) = Best offer. (w) = Best offer. (x) = Best offer. (y) = Best offer. (z) = Best offer. (aa) = Best offer. (ab) = Best offer. (ac) = Best offer. (ad) = Best offer. (ae) = Best offer. (af) = Best offer. (ag) = Best offer. (ah) = Best offer. (ai) = Best offer. (aj) = Best offer. (ak) = Best offer. (al) = Best offer. (am) = Best offer. (an) = Best offer. (ao) = Best offer. (ap) = Best offer. (aq) = Best offer. (ar) = Best offer. (as) = Best offer. (at) = Best offer. (au) = Best offer. 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IFR underwriting survey

By Tracy Corrigan

Most borrowers consider distribution capacity the top priority in selecting an underwriter for Eurobond issues, according to a survey by IFR.

Next in importance are new issues, secondary market support and impartiality. However, the survey belies protests by underwriters that league tables are not important. 51 per cent of respondents ranked position in league tables either second or third on a scale of one to six.

In the Eurodollar bond mar-

ket, Goldman Sachs is the top underwriter, with perceived strength in generating new issues and giving impartial advice.

In the sterling Eurobond market, UBS and CS First Boston topped the table. Only two US houses, Barclays de Zoete and SG Warburg, made it to the top five. Borrowers said they received a better service in sectors which were open to competition from foreign banks.

● Borrowers Survey '93 published by IFR Research, 11 New Fetter Lane, London EC4A 3DF.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

	Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia	10.000	10/02	121.1200	+0.510	6.80	6.83	6.47
Belgium	9.000	05/03	113.9100	+0.140	6.82	6.83	7.12
Canada	7.500	12/03	105.8900	-0.180	6.56	6.77	6.77
Denmark	8.000	05/03	110.6700	-0.030	6.45	6.53	6.40
France	8.500	05/06	106.0800	-0.100	5.40	6.08	6.11
Germany	8.750	10/03	104.9900	+0.070	5.90	5.91	5.91
Italy	5.000	09/03	100.8200	+0.050	6.86	6.86	6.86
Japan	5.000	10/03	98.1400	+0.100	6.29	6.15	6.40
Netherlands	6.500	04/03	104.5800	+0.100	5.85	5.78	5.82
Spain	10.500	10/03	112.2000	+0.150	6.82	6.84	6.50
UK Gilt	9.125	11/06	112.2500	+0.020	6.12	6.11	6.22
US Treasury	8.000	10/06	117.2600	+0.020	7.05	7.02	7.21
ECU (French Govt)	6.750	06/03	96.2200	+0.020	5.78	5.98	6.43
ECU (German Govt)	6.250	02/06	99.1100	+0.020	6.30	6.13	6.01
ECU (Irish Govt)	6.000	04/03	110.7000	+0.030	6.44	6.30	6.45

London closing, "New York mid-day. (c) Gross annual yield including withholding tax at 12.5 per cent payable by non-residents. Source: MARK International

BOND FUTURES AND OPTIONS

France

NATIONAL FRENCH BOND FUTURES (MATF)

	Open	Settle	Change	High	Low	Est. vol.	Open int.
Dec	123.70	123.72	+0.02	123.80	123.58	8,854	198,518
Mar	127.48	127.52	+0.04	127.58	127.32	285	42,228
Jun	126.92	126.96	+0.04	127.02	126.86	20	2,854

LONG TERM FRENCH BOND OPTIONS (MATF)

	Strike Price	Dec	Mar	Jun	Dec	Mar	Jun
122	0.00	-	-	-	0.01	0.13	-
124	0.78	-	-	-	0.38	0.20	-
126	0.01	-	-	-	-	0.36	-
128	-	-	-	-	-	0.60	1.22
130	-	-	-	-	-	0.53	-

Est

Bombardier settles dispute with TML

By Charles Batchelor and Robert Gibbons

A row between Bombardier, a Canadian supplier of trains for the Channel tunnel, and Transmanche Link, the main contractor, over a £74.8m (£57.9m) claim to cover cost overruns has been settled, the two sides announced yesterday.

Details will not be announced until the settlement has been approved by the boards of the two companies and Eurotunnel - operator of the cross-Channel link - on December 2, but Canadian analysts estimated the agreement would be worth £650m to Bombardier.

Bombardier lodged its claim against TML last summer to cover extra manufacturing costs incurred due to late design changes ordered by TML. The original contract,

awarded in July 1989, was for the supply of 254 shuttle rail cars costing £450m.

The agreement removes the threat of further delays to the start of cross-Channel services next spring. The rail cars being built by Bombardier will carry cars, coaches and their passengers between the terminals at Folkestone and Calais.

More details will be released after formal approval has been given, Bombardier said. It has already made special provisions totalling £225m to cover possible losses, on the shuttle car contract.

If the agreement is approved early next month it will avoid the possibility of the dispute going to court. Mr Laurent Beaudoin, Bombardier chairman, had warned that legal action might become necessary if the dispute was not settled by the year end.

Bombardier halted production of the rail cars being built by its Eurotunnel subsidiary at its plant at Bruges, Belgium, in March, but resumed deliveries in June.

Eurotunnel said yesterday that it had not been affected by the delays in shipments of the rail cars, but it was concerned that problems could arise if the dispute had continued. "It was important for us to have something done about it," Eurotunnel commented.

Nearly 100 of the rail cars have been delivered to TML and are being prepared for commissioning.

Shuttle services carrying trucks and cars under the Channel are due to start next May, while passenger-only trains are due to start running between London Waterloo, Brussels Midi and Paris Gare du Nord in June or July.

Merrett appoints new chief executive

By Richard Lapper

Merrett Group yesterday appointed Mr Alan Cleary, the chairman of its loss adjusting arm, as group chief executive in a move which indicated that it may seek to restructure its business around its insurance services - rather than Lloyd's agency - interests.

Efforts to salvage Merrett Underwriting Agency Management, whose prospects have been brought into question by the difficulties of two of its largest syndicates, are continuing. Both syndicates 415 and 1067 were hit by the withdrawal of a run-off company, Travelers, the US insurance company, to offer backing which would have helped compensate for a sharp fall in support from members' agents.

Neither syndicate may have enough backing to continue underwriting in 1994, leaving their names - the individuals whose assets support the market - with a potentially expensive "run-off" (meeting claims on existing policies).

Mr Cleary joined Merrett in 1991 as chief executive of the services division, which includes Miller Knight, the loss adjuster, BIS, an insurance investigations business, Merrett Health Risk Management and a run-off company. He was recently appointed chairman of Miller Knight.

As group chief executive he replaces Mr Dennis Purkiss, who recently resigned to join Zurich. Mr Purkiss, who will be joined at Zurich by two leading Merrett underwriters - Mr Stewart Laberman and Mr Ken Barrett, takes over as chief executive officer at Zurich next year.

Mr Stephen Merrett, chairman of the Merrett Group, said of Mr Cleary "nobody is better equipped to see the Merrett Group through these difficult times".

Exchange rates help Tate & Lyle

By Maggie Urry

Tate & Lyle's combination of swings and roundabouts was largely favourable in the year to September 25, with profits before tax at £22.5m against £19.5m, although profits were still below the record £230.8m achieved in 1991. The pre-tax figure was boosted by £19.1m from exchange rate gains.

Group sales were 13.4 per cent higher at £3.52bn, and operating profits rose by 13.6 per cent to £289.6m. Two of the five divisions suffered profit falls at the pre-interest level.

In the North American sugar business profits fell from

£39.6m to £23m, with Domino - the cane business - largely to blame as lower sugar prices and selling quotas hit margins. A strike at one plant cost \$8m (£4m). Profits from Western, the beet business, also fell, with \$7m of start-up costs from a new desugarisation plant, although this is now trading profitably.

The other division which suffered lower profits was European cereal sweeteners and starches, where the decline was from \$5.4m to \$5.1m. Lower prices were caused by a potato starch glut, after a record crop, and as the problems of the paper industry

meant it used less starch. Outside North America, profits from sugar rose from £71.2m to £94.6m, including the UK up from £49.9m to £64.4m, with a £4.6m stock profit thanks to the green pound devaluation. Productivity improved 10 per cent in the UK.

Profits from North American starch and sweeteners rose from £55.3m to £84.7m, with Staley, a problem area in 1992, up from £18.7m to £130m. In 1991 Staley made £172.5m. The partial recovery in 1993 was despite pricing pressures, a \$12m rationalisation provision and a lock-out at one plant.

Animal feeds and bulk storage profits rose from £20.1m to £25.1m. Sucralose, a sugar substitute Tate has developed, lost £5.8m (£4m) and is not expected to make significant profits until it gains approval in the big markets of the US and Europe. It has gained acceptance in Canada, and has recently been approved in Australia and Russia.

Net interest charges fell from £47.9m to £47.1m. A settlement of a tax dispute in the US cut the tax charge from 26.2 per cent in 1992 to 24.7 per cent.

Fully diluted earnings per share rose from 26.2p to 32.7p.

Shares in Caledonia Investments rise 33p as profits reach £25m

By Catherine Milton

Shares in Caledonia Investments, the holding company controlled by the Cayzer family, rose 33p to close at 669p as a dull market welcomed its 27 per cent increase in net asset value per share at the half year stage and interim pre-tax profits up almost 30 per cent.

Net asset value rose to 625p (491p) after the cumulative write off of some 40p per share in goodwill on acquisitions. Pre-tax profits, which reached £25m (£19.8m) in the six months to September 30, included a 23m profit on the sale of operations and investments.

Mr Peter Buckley, deputy chairman and chief executive, conceded that £129m (£140m) in cash and near-cash was not ideal against a background of low interest rates. He could envisage the company one day

having gearing. "We have received £427m since 1987 and we have been making selective purchases with an emphasis on finding our way into more trading situations since then." Profits from trading subsidiaries increased to £2.3m (£1.4m), reflecting an improvement in nearly all sectors. Income from associated companies also rose strongly to £12.4m (£5.9m) on the back of a good performance by Bristol Helicopters and the inclusion of a full six months profit from Roco, the money broker.

Income from investments fell by £900,000 to £2m because of a one-off dividend related to the flotation of the Telegraph. The company also received a dividend from a decision to book dividends at ex-dividend date rather than at cash received.

Earnings per share rose to 18.9p (14p) and the dividend is lifted to 5.4p (5p).

COMMENT

The company's recently announced £44m (£29.5m) move into leisure overseas via a joint venture with some old business partners looks bold. But Caledonia's record for astute deals includes its sale of a controlling stake in British and Commonwealth Holdings just before the share price peaked and subsequent mopping up of some of B&C's businesses from administrators. The Cayzer caution means the net asset value per share is probably still less than what could be realised. Mr Buckley, himself a Cayzer, hopes there is more value in the unlisted associated companies which posted good results this time. If so, shares are trading at a discount to a net asset value which understates the worth of the company. Analysts forecast pre-tax profits of about £49m for the full year.

Alba advances 36% amid encouraging trading

By Paul Taylor

Alba, the consumer electronics group and UK market leader in home audio and small screen colour television sales, yesterday reported a near-36 per cent rise in interim profits and described pre-Christmas high street trading as "very satisfactory".

The rise, from £1.2m to £1.63m pre-tax for the six months to end-September, came on turnover 10.9 per cent higher at £50.1m. The comparative profit figure included a £194,000 loss on the now discontinued Greenwood Theatre television studios.

Mr John Harris, chairman, said: "Trading in the UK has been good in the period under review and, despite the weak trading conditions in France

and Germany, we have experienced reasonable levels of business in these countries." He added: "Current business in the run up to Christmas is very satisfactory."

The chairman's comments on current UK trading were in sharp contrast to some of Alba's competitors including Amstrad, whose chairman, Mr Alan Sugar, warned last week that there was no evidence of a pre-Christmas high street spending boom.

In addition to audio and domestic appliances, which Mr Harris said had sold particularly well, the group has successfully entered the higher priced UK satellite equipment and Nikon stereo TV markets. Earnings per share increased to 2.63p (1.82p) and the interim dividend is maintained at 1p.

Aberforth Split to raise £51.5m via share issue

By Philip Coggan, Personal Finance Editor

Aberforth Split Level Trust is seeking to more than double its size by raising an additional £51.5m after expenses. As with most recent trust issues, the funds will be raised via an offer of C shares at 100p each.

The investment trust, which invests in the shares of small companies, has a split capital structure, with income shares, capital shares and units (a combination of one capital and one income share).

In July 1994, the C shares

will be convertible, either into a unit, or into one capital and one income share, at the option of the holder.

Trusts use the C share structure so that the two pools of assets are kept separate until the money raised via an issue is fully invested. Conversion then takes place at prices based on the asset values prevailing at the time.

Irrevocable undertakings have been received to apply for 47.5m C shares. The balance of the offer, some 5.5m C shares, is available to the public.

Catalogue deal for Thorn

By Michael Slapnicko, Leisure Industries Correspondent

Thorn EMI yesterday concluded an agreement to administer for five years a music catalogue owned by Michael Jackson, the singer.

Ownership of the catalogue will remain with ATV Music, Michael Jackson's music publishing company, which will receive advances of £70m (£46.9m) from Thorn over the period.

The advance next year will be \$30m, followed by smaller advances in subsequent years.

Thorn will be paid an unspecified percentage of gross royalties.

The catalogue includes most of the Beatles songs written by John Lennon and Paul McCartney, as well as songs by Elvis Presley, Little Richard, Kenny Rogers and UB40. It does not include any work by Michael Jackson.

Ferranti shareholders favour administration if GEC bid fails

By Paul Taylor

Disgruntled Ferranti International shareholders are urging that the defence electronics group should be placed in administration rather than receivership if GEC's token 1p share bid is rejected.

A court-appointed administrator's role is to try to secure the survival of the company as a going concern, or achieve a more advantageous realisation of the company's assets than available through a receiver's winding up of the company.

Mr John Katz, chairman of the Ferranti Shareholders Support Association, has challenged GEC and Ferranti and their financial advisers to explain why the offer document fails to mention the possibility of administration if the bid fails.

In a letter yesterday to SG Warburg, GEC's adviser, Mr Katz wrote: "There may be factual considerations which applied in the (Ferranti) board preferring to (Ferranti) board to receivership if and when your offer is voted

down... instead of protecting through administration the banks, creditors, employees, customers, contractors and shareholders of Ferranti."

"Or possibly, certain banks have denied a petition to allow administration." Mr Eugene Anderson, Ferranti's chairman, has told the group's 48,000 shareholders that if GEC's offer is not accepted by shareholders representing at least 90 per cent of the group's 1bn outstanding shares on December 8, the closing date for the offer, the banks will be asked to appoint a receiver.

There are some important differences between receivership and administration, according to Mr Robert Dow, an editor of FIC, the practical law magazine for companies.

The main duty of a receiver, who is generally appointed by a secured creditor such as a bank, is to protect the interest of the bank whereas an administrator is appointed by the court and protects the interests of the company and general body of creditors.

An administrator enjoys the benefit of a statutory freeze on

Optometrics improves to \$98,000

Optometrics, the USM-quoted optical systems group, reported increased pre-tax profits of \$98,000 (\$65,770) for the six months to the end of September, compared with \$25,000.

Mr Frank Denton, chairman, said shipments were above the levels of last year and the order book remained more than 30 per cent ahead.

Turnover was \$1.88m (£1.76m). Earnings per share came out at 0.7 cents (0.05 cents).

In October the company signed an agreement with Integrate Russia, which represents several large Russian optical institutes, for worldwide distribution rights of their products.

The shares rose 2p to 23p.

Premiums for three market newcomers

There were premiums for all three of yesterday's newcomers to the stock market.

Shares in DFS Furniture, the specialist upholstery retailer, ended their first day's trading at 271p, compared to the 260p issue price. Some 17m shares were traded.

The rise increases the value of the 51.7 per cent stake retained by Mr Graham Kirkham, chairman, by about 15m. He raised £123m by selling 47.7 per cent of the group's shares in the flotation.

The public offer of 17.5m shares was 1.3 times subscribed, and allocations were

skewed towards smaller investors.

This may have created some demand for shares yesterday from larger investors disappointed by the allotments.

Adrian Group, the networking products distributor which came to the market this week, saw its shares close 11p up on the 230p offer price.

Some £6m, net of expenses, was raised in the flotation. The proceeds will be used to increase its market share and expand internationally.

Shares of Hozelock, the garden equipment manufacturer, recovered from an early low of

235p to close 1p above the issue price at 251p.

Analysts said trading had been buoyant, with good two-way business.

The group raised a net £13m through the placing of 11.2m ordinary shares, half of which were subject to a clawback to meet retail demand through intermediaries. The offer was 2.1 times subscribed.

The company will be using £5.4m of the proceeds to redeem existing preference shares and £2.5m to repay bank and shareholder loans. The balance will provide working capital.

WAGON INDUSTRIAL

Results for the half year ended 30 September 1993

	1993	1992
Turnover	£132.2m	£114.4m
Profit before Tax and exceptional item	£8.1m	£8.5m
Exceptional item-redundancy and other restructuring costs at Forthard	£3.0m	
Earnings per ordinary share	4.52p	14.62p
Interim dividend	6.325p	6.133p

"We are pleased with the underlying progress the Group has achieved during a period of significant economic pressure. In Britain it is anticipated that economic recovery will continue, albeit dampened somewhat by subdued export prospects. UK subsidiaries have improved market share and it is expected that this will continue."

Paul H Taylor
Chairman
24 November 1993

Copies of the Interim Report will be posted to shareholders on 24 November and may be obtained from the Company Secretary, Wagon Industrial Holdings P.L.C., Haldane House, Halesfield, Telford, Shropshire TF7 4PB or telephone 0952 680 111.

REUTERS 1000 RECEIVES TOP EUROPEAN SERVICE AWARD

The European Commission jury at EuroCom'93 recently selected the REUTERS 1000 financial data service as the best new service of the year. REUTERS 1000 was judged to have both superior technological and commercial innovativeness. To find out more about this exciting new business tool, fax hyperCOM at 45 46 87 87 73 or see CNN TEXT page 736.

Aim shares fall 30p on warning

Shares of Aim Group, the shaker of aircraft interior fittings, fell 30p to 185p yesterday following the company's warning on second half turnover and profits.

It cited the recent announcement by Saab-Scania that certification of its new Saab 2000 airliner had been delayed by a year until October 1994. The supply of its interior is the group's largest contract.

Aim said that the aerospace market continued to weaken and although first half profits should be in line with expectations, it was unlikely that current full-year profits would exceed £2m. Profits for the year to April 30 1993 amounted to £3.63m.

BSG Intl warns on profits

Shares of BSG International, the automotive components manufacturer, fell 134p to 564p yesterday following a warning from the company that a further deterioration in continental European car production would adversely affect full-year profits.

The directors estimated that for the year as a whole production would be 20 per cent lower than in 1992.

As a result, group pre-tax profits for 1993 were expected to fall from a reported £12m (restated to £7.4m for FR 3) to "not less than" £2.5m.

Should a sale and leaseback of two factories be completed before December 31 an exceptional profit of £2m would lift the year-end figure to £10.5m.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres. least dividend	Total for year	Total year
ABI Leisure	2.51	Jan 81	2.18	3.76	3.76
Alba	1.00	Apr 25	1.00	4.65	4.65
Caledonia Inv	5.4	Jan 20	5.4	15	15
Concentric	4.09	Jan 18	3.815	5.86	5.585
Dunelm W'wide	7.1	Jan 20	7.1	8.5	8.5
Goedhard	0.05	Feb 8	0.05	0.05	0.05
Kwik Save	12.9	Jan 13	11.3	18.3	18.3
Lowndes Lambert	51	Feb 4	4.5	13.5	13.5
Osborne & Little	2.5	Jan 25	2	4.6	4.6
Platignum	0.26	Dec 22	0.25	0.5	0.5
Tate & Lyle	8.7	Feb 8	8	13	13
Wagon Industrial	6.325	Feb 21	6.325	17.5	17.5
Warford Invest	2.75	Apr 11	2.75	7.5	7.5
Yeoman Inv Trst	6.4	Dec 31	-	-	-

Dividends shown pence per share net except where otherwise stated. *10m increased capital. *Equivalent after allowing for scrip issue. *USM stock. *Second interim, making 11.8p so far.

Share price movements for the week ending 24 November 1993

Share	High	Low	Open	Close	Change
AIM	185.00	185.00	185.00	185.00	0.00
BSG Intl	564.00	564.00	564.00	564.00	0.00
Dunelm W'wide	7.10	7.10	7.10	7.10	0.00
Kwik Save	12.90	12.90	12.90	12.90	0.00
Lowndes Lambert	51.00	51.00	51.00	51.00	0.00
Osborne & Little	2.50	2.50	2.50	2.50	0.00
Platignum	0.26	0.26	0.26	0.26	0.00
Tate & Lyle	8.70	8.70	8.70	8.70	0.00
Wagon Industrial	6.325	6.325	6.325	6.325	0.00
Warford Invest	2.75	2.75	2.75	2.75	0.00
Yeoman Inv Trst	6.40	6.40	6.40	6.40	0.00

COMPANY NEWS: UK

BPP shares tumble after profits warning

By Peggy Hollinger

Shares in BPP yesterday plunged to their lowest level for almost three years as the language and professional training company warned annual profits would lower than expected due to increased rationalisation costs and a substantial property write-down.

The market marked the shares down 90p to 215p, their lowest since February 1991, after the group announced it expected profits to be at least £5.3m before the write-down.

Analysts had expected profits, scheduled for March 21, of about £7.8m.

The group also said it expected to take a charge of about

£5.3m through the profit and loss to account for a £7.5m reduction in the value of its properties. The rest would be charged against reserves.

BPP issued the warning following its decision to pull out of language training in Belgium and Japan at a further cost of £300,000. This followed the company's warning in August that it would incur

£850,000 in charges for reducing its exposure to the depressed Japanese market.

Mr Richard Price, chairman, said yesterday trading had become particularly tough both in Japan and continental Europe in the last three months.

The language division was expected to incur a loss of £400,000 against profits of £287,000 last year of which £300,000 was attributable to the Belgian and Japanese businesses.

Mr Price said he expected trading in the language division to be difficult through 1994, due to the increasingly depressed climate in France and Germany.

However, he emphasised that profits continued to move ahead at the group's three other divisions - publishing, and academic and professional training - albeit less rapidly than expected in the first two cases.

He said confidence in these three businesses reinforced the decision to forecast an increased final dividend of 5.5p (5.5p), for a total of 8.5p (8.5p).

Scots are developing the power to invade England

James Buxton on the current expansion plans of Scottish Power and Scottish Hydro-Electric

Opinions may differ on whether a line of new pylons through the hills of southern Scotland near the A74 Glasgow-Carlisle road enhance the scenery.

They will certainly enhance the business of Scottish Power and Scottish Hydro-Electric, the two Scottish electricity companies.

The recently-completed pylons are the upgraded interconnector, the transmission line taking Scottish electricity exports to England.

Scottish Power, which reports its interim results today, gets the lion's share of the 350MW increase in the interconnector's capacity, which is rising to 1,200MW, though Hydro-Electric's export capacity will rise slightly.

Total capacity should rise to 1,600MW by 1995, following improvements in the English grid.

Last week Scottish Power received another boost when it concluded an agreement with British Coal to take more than 2m tonnes of coal a year for the next five years on terms similar to those reached by the two English generators in the spring.

The deal involves a backdated reduction in the price which will cut the company's fuel costs by £10m this year, and a more rapid drop in world

coal price levels than planned under the previous contract. Hydro-Electric, which generates most of its electricity from gas and hydro power, will get one sixth of the coal.

Unlike the regional electricity companies and the two English generators, the Scottish companies are vertically integrated, both generating and supplying electricity.

Apart from the Northern Ireland company they were the last to be floated and the only ones where the government got the price about right, putting a small premium for investors but a sluggish after-market.

From the start in 1991 the two companies pursued different strategies.

Scottish Power, with a market capitalisation more than twice that of Hydro-Electric, concentrated on its much bigger domestic market, while exporting power to England via the interconnector. It also developed some generating projects in England and studied the possibility of supplying power to the Isle of Man, but none of these schemes materialised.

Hydro-Electric was nimble in signing up to supply individual customers south of the border. With Norway it pushed ahead on a project to build a 680MW gas-fired power station



at Keadby on the Humber.

Analysts considered Hydro-Electric more dynamic and the market established a premium for its shares over Scottish Power.

However, in September Hydro-Electric dropped out of the FT-SE 100, and since October has stood at a slight discount to Scottish Power, which is now making a bigger effort to explain where it is going.

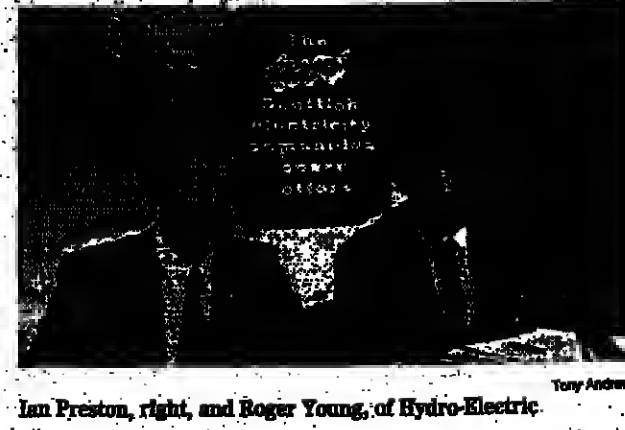
Mr Ian Preston, Scottish Power's chief executive, put achieving greater efficiency as a primary objective. It is now bringing itself up to the benchmark standards of the best US utilities, and has shed 30 per cent of staff in its core business since privatisation.

Other aims are to make the

most of its generating assets and "to diversify prudently in utility-related businesses".

It has plans to build a 250MW interconnector to supply Northern Ireland. The original route for the pylons across Ayrshire ran into opposition but the company will seek planning consent for a revised line next year.

When that comes onstream towards the end of the decade, and taking into account the interconnector upgrade to England, 30 per cent of Scottish Power's output should be going outside its own territory at prices outside the control of the regulator. The present level is 9 per cent.



Ian Preston, right, and Roger Young, of Hydro-Electric.

In diversifying, Scottish Power has recognised its retailing business, which claims 30 per cent of the Scottish white goods market and is expanding in northern England. It has a joint venture in gas with Utilicorp, named Caledonian Gas, which already has 2,000 customers.

"It's a low risk business," says Mr Preston. "Caledonian gets the customers, Utilicorp supplies the gas and British Gas delivers it."

Like other gas suppliers he is urging the government to liberalise the gas market to embrace most domestic customers. At present only consumers who take 2,500 therms a year, giving an annual bill of more than £1,100, can choose their supplier.

Scottish Power is also spending £7m on a fibre optic telecommunications network between Glasgow and Edinburgh for use by other companies.

For Hydro-Electric, with a

much smaller domestic market and a share of the interconnector that will only reach 490MW in 1995, the priority has been to develop generating capacity south of the border.

That policy is now coming to fruition. The Keadby plant will begin operating in January 1995, and last month it formed a joint venture with BNF called Felside to own a 157MW gas fired combined heat and power plant opening early next year at Sellafield.

With the enhanced interconnector and a 74MW combined heat and power plant at Dover, Hydro-Electric should be supplying 820MW of power in England by 1995.

The north of Scotland company recently formed Vector Gas, a joint venture in gas with Marathon, which intends to market gas all over Britain under the HE Energy label. Rather more than Scottish Power, Hydro-Electric has its sights on becoming an all-purpose energy utility.

NEWS DIGEST

Exports help ABI rise 23%

ABI Leisure Group, the caravan and leisure homes manufacturer, achieved a 23 per cent improvement in pre-tax profits, from £2.31m to £2.84m, in the year ended August 31.

Turnover rose 10 per cent to £61.8m (£56.2m) with exports contributing over 31 per cent (26.3 per cent). A distributor has been appointed covering France, Spain and Portugal.

Mr George Shiels, chairman, said that despite a reduction in the size of the market, sales of UK leisure homes had increased.

Earnings per share advanced to 7p (5.8p) and the total dividend is maintained at 3.75p with a proposed final of 2.51p (2.19p).

Dunedin Worldwide
Dunedin Worldwide Investment Trust lifted net asset value by 40 per cent, from 608.3p to 848.6p per share, over the 12 months to October 31.

Net revenue improved to £3.29m, against £3.12m restated to allow for a change of policy on income from fixed interest securities, for earnings of 8.68p (9.15p) per share. A recommended final dividend of 7.1p maintains the total at 9.5p.

Falcon Hldgs
Pre-tax profits at Falcon Holdings, the valve and pipeline equipment distributor formerly known as Walker & Staff, declined from £237,000 to £175,000 in the six months to September 30.

Turnover at both Falcon and Walker & Staff, its trading company, fell 14 per cent to £3.15m (£3.67m).

Operating profits emerged at £144,000 (£187,000).

Earnings shrank to 5.3p (7.3p) per share and an interim dividend of 3p (nil) is declared.

Cosalt
Losses at Cosalt, the diversified industrial group, were cut from £208,000 to £22,000 pre-tax for the year to August 28.

Turnover from continuing activities fell from £62.6m to £61m.

Directors said the group would have returned to profit but for their decision to sell the fishing-related rope, net and twine business which resulted in an above-the-line provision of £700,000.

Exceptional items accounted for £287,000 (£2.14m) and interest for £1.06m (£1m). Losses per share emerged at 2.7p (7.4p). All comparative figures have been adjusted to conform with FRS 3.

A final dividend of 3.25p is to be paid from reserves for a 5.375p (10.75p) total.

Tex
Tex Holdings, a provider of consumables to the plastic, steel and energy industries, returned to the black in the six months to September 30.

Profits before tax of £486,000 were achieved after charges of £104,000 for factory closure and

redundancy costs. Last time losses were £146,000.

Turnover expanded to £12.3m (£7.5m). Earnings were 5.1p (1.6p) per share.

Wentworth
The USM quote of Wentworth International, the plastic packaging products group, is being cancelled following the recent rights issue.

Moncean Investments, a wholly owned subsidiary of Banque Indosuez, will take up the balance of the rights issue shares, following which it will hold 91.15 per cent of the enlarged share capital.

Wentworth is investigating the possibility of its shares being dealt on a matched bargain basis under Rule 535(2).

City of London PR
City of London PR Group, the USM-quoted specialist investor relations and market research company, lifted pre-tax profits by 10 per cent from £292,000 to £322,000 in the six months to September 30.

Mr John Greenhalgh, chairman, said he expected a similar improvement in the second half.

Turnover declined to £1.28m (£1.54m) but that was offset by an improvement in margins. Mr Greenhalgh said. Earnings per share improved to 3.17p (2.75p) and the interim dividend is raised to 1.27p (1.15p).

F&C Emerging
Foreign & Colonial Emerging Markets Investment Trust saw a 60 per cent rise in net assets per share at September 30, from 61.6p to 101.7p.

Attributable revenue came out at £314,000 (£732,000). Earnings per share were 0.31p (0.73p); a single final dividend of 0.27p (0.25p) is proposed.

Anglo Irish Bank
Anglo Irish Bank lifted pre-tax profits to £33.55m (£3.8m) for the year ended September 30.

Last year's profits of £36.38m were restated in accordance with FRS 3.

Mr A Gerard Murphy, chairman, said that despite the turbulent conditions of the first four months the loan book emerged relatively unscathed from high interest rates.

Earnings per share worked through at 5.7p (4.96p) and a final dividend of 3p is recommended for an unchanged 8.36p total.

Kitty Little
Kitty Little, the USM-quoted maker of fragrant gifts, air fresheners and self-selection reading glasses, is acquiring the Foster Grant trade mark from Benson Eyecare.

Consideration of £720,000 will be satisfied via the issue of 2.4m new shares at 30p apiece.

At the same time the group has arranged a placing and open offer of 7.13m new shares, on a 7-for-10 basis at 30p, to raise £2.14m to fund the recently-announced purchase of Samco Sunglasses.

Of these, Dunelm's 5.48m shares of which 3.17m have been placed with Benson Eyecare.

In total Benson will hold 28.25 per cent of the enlarged group.

What do all of these companies have in common?...



...a serious commitment to hygiene monitoring and quality assurance in the manufacture of their products...

...they also welcome Biotrace International Plc to the London Stock Exchange

BIOTRACE
LITE YEARS AHEAD

27/11/93

COMMODITIES AND AGRICULTURE

Opec ministers divided over production cuts

By Robert Corzine in Vienna

The Organisation of Petroleum Exporting Countries was last night locked in debate over the wisdom of making production cuts to shore up sagging prices, with some members fearing that reductions might only benefit non-Opec producers keen to carve out bigger market shares.

Uncertainty over the effectiveness of a strategy based on Opec cuts has dominated the meeting, which began in Vienna on Monday with a gloomy assessment of market conditions by Mr Jean Ping, Opec president and energy minister from Gabon.

He had appealed to the delegates from the 12 member states to "... take a hard look at our existing arrangements", which are based on a production ceiling of 24.52m barrels a day. That ceiling has been largely adhered to, with no evidence of the widespread

cheating that undermined previous Opec deals.

But a combination of factors such as low demand in the main oil consuming countries in Europe and in Japan and the perception among refiners and traders that supplies are plentiful has helped to drive down prices.

The delegates in Vienna have chastised non-Opec producers for benefitting from their restraint, but Mr Ping noted that it was up to Opec to find "... something we can do in the short term to steady the markets". Defining such steps has proved elusive, however. Dr Subroto, Opec secretary general, said delegates attending a closed-door meeting last night would "work until we reach consensus".

The meeting was expected to hear conflicting views on what to do, with some countries, including Venezuela, questioning whether cuts were appropriate only two months after

Opec had hammered out a new production ceiling.

Of Opec's two biggest producers, only Iran seemed to be firmly on the side of production cuts, although analysts said it was unwilling to take the lead in promoting them. Saudi Arabia, the dominant producer, also appeared unwilling to orchestrate any cuts.

The talks were also complicated by uncertainty over forecasts for demand for Opec oil. Some estimates suggest that Opec need only maintain its present stance over the next several months for surplus stocks to be whittled away as demand increases in line with the onset of the northern hemisphere winter.

But many analysts believe at least a 3 per cent cut is needed to firm prices, which have drifted since Opec's September meeting. The Brent Blend January price was \$15.47 a barrel, down 15 cents, in late trading yesterday.

Lonrho in \$250m Uzbek gold venture

By Kenneth Gooding, Mining Correspondent

More than US\$250m will be spent over eight years on a gold mine in the newly-independent republic of Uzbekistan, once part of the former Soviet Union, Lonrho, the UK-based conglomerate, announced yesterday. Lonrho will develop the mine jointly with two Uzbek government-owned companies.

Mining is scheduled to start early in 1996 at an initial annual rate of 350,000 tonnes, increasing after about four years to full production of 450,000 tonnes. The first phase would cost about \$250m, set up to develop the mine, \$100m. Lonrho would contribute about \$30m and the International Finance Corporation, the private sector investment arm of the World Bank, \$5m.

Lonrho gave a strong hint that the mine might be used to produce the Uzbek gold. The group's 45-per-cent-owned associate, Ashanti Goldfields in Ghana, is at present installing the world's biggest biological oxidation plant, using technology developed by Genor of South Africa. This will use a naturally-occurring bacteria, *thiobacillus ferrooxidans*, to release gold from difficult ores instead of employing heat and pressure vessels.

Lonrho said tests carried out so far indicated that the Uzbek ores were particularly amenable to biological oxidation. The process was particularly attractive because it would not leave any harmful sulphate materials in the waste to damage the delicate desert ecology - the proposed mine will be in the Kyzylkum desert, about 500km north-west of Tashkent.

Other finance for the project will come from the European Bank for Reconstruction and Development. The UK Know-How Fund helped to finance a pre-feasibility study.

Smelting to continue at Avonmouth

By Kenneth Gooding

Four weeks after acquiring the UK's sole lead-zinc smelter, at Avonmouth, for \$107m, MIM Holdings, the Australian resources group, is calling for a 19 per cent cut in the workforce, changes in working practices and increased metal production.

However, employees were assured yesterday that, although the European zinc industry is discussing the coordinated closure of a smelter, MIM had no intention of shutting Avonmouth.

Mr Alan Pugh, managing director of Mount Isa Holdings (UK), said the new management would be able to lift annual production from Avonmouth to 120,000 tonnes of zinc. The smelter's capacity of the plant was only 100,000 tonnes, but recently it had operated at an annual rate of 111,000 tonnes, he said. Lead production is to be boosted from 45,000 to 55,000 tonnes a year.

MIM, which bought the plant from Pamlico, another Australian company, has started consultations with the unions and is asking for at least 115

volunteers for redundancy from the present workforce of 610.

Mr Pugh said that about 40 per cent of the redundancies would be among managerial, supervisory and support staff.

The remaining employees would be asked to adopt more flexible working practices to match the best in British industry.

Increased productivity and extra metal production should improve operating profit by \$7.5m to lift Avonmouth from a position of marginal profit to a world-class, low-cost producer of high quality zinc and lead that provides an acceptable return on investment.

Analysts suggested that Avonmouth was safe from closure once MIM took it over. The smelter uses the ISP (Imperial Smelting Process) technology, which has the mixed zinc and lead concentrates to be produced from 1985 at MIM's 70 per cent-owned McArthur River project in the Northern Territory of Australia.

One in four farm animal breeds in danger of extinction, FAO warns

By John Madeley

Over a quarter of the 4,000 breeds of animals used for food and agriculture are in danger of becoming extinct, warns a report by the Food and Agriculture Organisation of the United Nations.

If only 5 per cent of the breeds are being lost each year, says the FAO, "the average loss could be about one breed a week".

The most endangered species are in Europe, says the report. Breeds under threat include the Ragusa cattle, in northern Italy, whose milk produces Parmesan cheese, the North Ronaldsay sheep of the Orkney islands that survive on seaweed, and the Yakut cattle of northern Siberia.

"A large number of European breeds are under threat

because of their perceived lack of economic competitiveness," says the FAO.

It classifies breeds as endangered if there are 1,000 or less breeding females or less than 20 breeding males. Natural disasters, wars and indiscriminate cross-breeding are important causes for the extinction of breeds, it says.

In Asia and the Pacific, the report details 51 breeds at risk, including the Min Pig, which is highly prolific and disease-resistant and capable of surviving in low temperatures, and the Javanese Zebu cattle, a breed described as "highly fertile, hardy and resistant to tick-infestation".

Breeds at risk in North America include Florida Cracker cattle, one of the first to enter the United States, and the Imperial Sheep, which is

capable of breeding almost all the year round. In Latin America, the Canastra pig of Brazil, is said to be at risk and also the Blanco Orejinegro cattle, of Colombia.

"Much of the genetic base of indigenous breeds is being eroded by 'grading up' with exotics," says the FAO.

Animal production contributes about 30 per cent to the total value of food and agriculture and diversity of farm animals is vital for food production for future generations, the report points out.

It suggests that breeds should be regularly monitored and incentives given to encourage their use and maintenance.

The World Watch List for Domestic Animal Diversity, FAO, Via delle Terme di Caracalla, Rome, Italy.

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Malachi Yosi is a worried man. Not far from his clean, modern nursery in the new Mosheva settlement of Ein Haboron in the western Negev is the Gaza strip - full of fertile soil, citrus orchards, plastic covered greenhouses and competent farmers impatiently awaiting the dawn of unrestricted trade with all its neighbours.

Until the intifada made it too hazardous to be dependent on the regular arrival of Palestinians from across the border, 90 per cent of the 60-odd workers in Mr Yosi's company were Palestinians. Now they comprise less than a third.

With surplus labour from large families earning much lower wages, Gaza farmers can produce high quality fruit and vegetables at half the cost in Israel. While Israel controls Gaza trade that didn't much matter. But free trade is now an imminent prospect.

Hence Mr Yosi's furrowed brow.

Basketfuls of international money are poised to pour into the Gaza strip, said to be the world's most densely populated region.

And it will be liberally aided by its erstwhile conquerors. However worried Israel's farmers may be about competition, Israel's rulers are far more concerned to get the stricken

Gaza economy on its feet and thriving as soon as possible. Not only is this seen as the soundest insurance against extremists: it is also in Israel's interests to channel Gaza's output of intensively-grown produce into export markets. This means not merely encouraging the most up-to-date production techniques in an industry already advanced well beyond its Arab neighbours, but creating a marketing apparatus and export facilities, which at present barely exist, save by courtesy of Israel's own sophisticated export-oriented system.

Professor Avi Nachman is the man named to lead a group of Israeli and Palestinian experts to help expand and modernise Gaza's agricultural infrastructure, as part of a wider rehabilitation scheme.

Head of one of the research stations run by Israel's Volcani Institute, the state's highly regarded agricultural research organisation, Prof Nachman is the man named to lead a group of Israeli and Palestinian experts to help expand and modernise Gaza's agricultural infrastructure, as part of a wider rehabilitation scheme.

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replenishment. Together with the depressed prices for oranges in world markets, this has forced Gaza farmers into concentrating on high value, water-economical crops, creating what Mr Sadan recently described as "an utterly modern horticultural industry". In 1991 this comprised 400 hectares of greenhouses (Israel has 2,500 ha) and 700 ha of plastic tunnels. They represented an investment of between \$30m and \$40m divided among several hundred families.

The horticultural industry is well poised to attack markets in northern Europe and elsewhere in the Middle East. In mid-October the first (official) convoy of 17 produce-laden lorries crossed from Gaza through the West Bank en route to Dubai: a harbinger of a potentially booming trade.

For Israel as a whole, with less than 3 per cent of its population now directly involved in farming or horticulture, the liberalisation of trade with Gaza is unlikely to have any serious economic impact. For people like Malachi Yosi, however, a frisson of apprehension is understandable. Nevertheless, the more speedily Israel and the West can help promote Gaza's ravaged economy and raise its living standards, and wages, the less painful will be this modest price for peace.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Associated Metals Trading)

Alluminium, 99.7% purity (\$ per tonne)

Close 1085.0 1085.0-0

Previous 1085.0 1078.0

High/Low 1085.0 1085.0/1078.0

AM Official 1085.0 1085.0

Kerb close 1085.0 1085.0

Open int. 254.07

Total daily turnover 41,380

Alluminium alloy (\$ per tonne)

Close 934.0 954.0

Previous 934.0 957.0

High/Low 934.0 957.0

AM Official 934.0 957.0

Kerb close 934.0 954.0

Open int. 2,515

Total daily turnover 110

LEAD (\$ per tonne)

Close 400.5-1.5 414.0

Previous 400.5 415.0

High/Low 400.5 414.0

AM Official 400.5 414.0

Kerb close 400.5 414.0

Open int. 25,761

Total daily turnover 2,162

NICKEL (\$ per tonne)

Close 4085.00 4745.0

Previous 4085.00 4780.0

High/Low 4085.00 4774.0/4730.0

AM Official 4085.00 4740.0

Kerb close 4085.00 4770.0

Open int. 48,452

Total daily turnover 7,707

ZINC (\$ per tonne)

Close 4560.70 4610.20

Previous 4560.70 4600.0

High/Low 4560.70 4600.0

AM Official 4560.70 4610.20

Kerb close 4560.70 4610.20

Open int. 14,754

Total daily turnover 4,678

ZINC, special high grade (\$ per tonne)

Close 915.0-0.5 933.0-4.0

Previous 915.0 938.0

High/Low 915.0 938.0

AM Official 915.0 938.0

Kerb close 915.0 938.0

Open int. 78,648

Total daily turnover 17,893

COPPER, grade A (\$ per tonne)

Close 1620.0-3.0 1653.0-3.0

Previous 1620.0 1658.0

High/Low 1620.0/1653.0 1657.0/1645.0

AM Official 1620.0 1657.0

Kerb close 1620.0 1655.0

Open int. 34,080

Total daily turnover 14,906

LME Official 238 rate 1.283

Spot, 1.480 3 mths 1.408 6 mths 1.470 9 mths 1.477

HIGH GRADE COPPER (COMEN)

Days

Close 74.30 +0.20 74.30 74.30 328 82

Dec 74.30 +0.20 74.30 74.30 16,414 7,893

Jan 74.30 +0.20 74.30 74.30 1,380 47

Feb 74.30 +0.20 74.30 74.30 946 10

Mar 74.30 +0.20 74.30 74.30 7,710

Apr 74.30 +0.20 74.30 74.30 358

Total 88,490 17,893

Precious Metals continued

GOLD COMEX (100 Troy oz; \$/troy oz)

Close 377.2 -0.1 377.2 375.2 45,948 30,281

Previous 377.2 -0.1 377.2 375.2 45,948 30,281

High/Low 377.2 -0.1 377.2 375.2 45,948 30,281

AM Official 377.2 -0.1 377.2 375.2 45,948 30,281

Kerb close 377.2 -0.1 377.2 375.2 45,948 30,281

Open int. 34,201

Total 34,201 34,201

PLATINUM NYMEX (50 Troy oz; \$/troy oz)

Close 363.0 -0.1 363.0 361.0 11,355 5,854

Previous 363.0 -0.1 363.0 361.0 11,355 5,854

High/Low 363.0 -0.1 363.0 361.0 11,355 5,854

AM Official 363.0 -0.1 363.0 361.0 11,355 5,854

Kerb close 363.0 -0.1 363.0 361.0 11,355 5,854

Open int. 14,905

Total 14,905 14,905

PALLADIUM NYMEX (100 Troy oz; \$/troy oz)

Close 125.10 -0.70 125.10 124.50 1,110 390

Previous 125.10 -0.70 125.10 124.50 1,110 390

High/Low 125.10 -0.70 125.10 124.50 1,110 390

AM Official 125.10 -0.70 125.10 124.50 1,110 390

Kerb close 125.10 -0.70 125.10 124.50 1,110 390

Open int. 4,382

Total 4,382 4,382

SILVER COMEX (100 Troy oz; \$/troy oz)

Close 464.3 -1.8 464.3 463.0 31,481 16,833

Previous 464.3 -1.8 464.3 463.0 31,481 16,833

High/Low 464.3 -1.8 464.3 463.0 31,481 16,833

AM Official 464.3 -1.8 464.3 463.0 31,481 16,833

Kerb close 464.3 -1.8 464.3 463.0 31,481 16,833

Open int. 10,833

Total 10,833 10,833

CRUDE OIL NYMEX (42,000 US gal; \$/barrel)

Close 16.58 -0.05 16.58 16.44 10,700 55,485

Previous 16.58 -0.05 16.58 16.44 10,700 55,485

High/Low 16.58 -0.05 16.58 16.44 10,700 55,485

AM Official 16.58 -0.05 16.58 16.44 10,700 55,485

Kerb close 16.58 -0.05 16.58 16.44 10,700 55,485

Open int. 17,145

Total 17,145 17,145

HEATING OIL NYMEX (42,000 US gal; \$/barrel)

Close 16.58 -0.05 16.58 16.44 10,700 55,485

Previous 16.58 -0.05 16.58 16.44 10,700 55,485

High/Low 16.58 -0.05 16.58 16.44 10,700 55,485

AM Official 16.58 -0.05 16.58 16.44 10,700 55,485

Kerb close 16.58 -0.05 16.58 16.44 10,700 55,485

Open int. 17,145

Total 17,145 17,145

GAS OIL NYMEX (42,000 US gal; \$/barrel)

Close 16.58 -0.05 16.58 16.44 10,700 55,485

Previous 16.58 -0.05 16.58 16.44 10,700 55,485

High/Low 16.58 -0.05 16.58 16.44 10,700 55,485

AM Official 16.58 -0.05 16.58 16.44 10,700 55,485

Kerb close 16.58 -0.05 16.58 16.44 10,700 55,485

Open int. 17,145

Total 17,145 17,145

NATURAL GAS NYMEX (10,000 Btu; \$/unit)

Close 2.380 +0.023 2.380 2.350 11,857

Previous 2.380 +0.023 2.380 2.350 11,857

High/Low 2.380 +0.023 2.380 2.350 11,857

AM Official 2.380 +0.023 2.380 2.350 11,857

Kerb close 2.380 +0.023 2.380 2.350 11,857

Open int. 2,087

Total 2,087 2,087

UNLEADED GASOLINE NYMEX (42,000 US gal; \$/unit)

Close 0.4400 -0.0057 0.4400 0.4300 27,808 17,388

Previous 0.4400 -0.0057 0.4400 0.4300 27,808 17,388

High/Low 0.4400 -0.0057 0.4400 0.4300 27,808 17,388

AM Official 0.4400 -0.0057 0.4400 0.4300 27,808 17,388

GRAINS AND OIL SEEDS

WHEAT LCE (\$ per tonne)

Close 108.00 -0.10 108.00 107.50 1,389 23

Previous 108.00 -0.10 108.00 107.50 1,389 23

High/Low 108.00 -0.10 108.00 107.50 1,389 23

AM Official 108.00 -0.10 108.00 107.50 1,389 23

Kerb close 108.00 -0.10 108.00 107.50 1,389 23

Open int. 1,389

Total 1,389 1,389

WHEAT CBT (\$/cwt; cwt; cwt)

Close 269.2 +0.2 269.2 268.0 91,585 34,130

Previous 269.2 +0.2 269.2 268.0 91,585 34,130

High/Low 269.2 +0.2 269.2 268.0 91,585 34,130

AM Official 269.2 +0.2 269.2 268.0 91,585 34,130

Kerb close 269.2 +0.2 269.2 268.0 91,585 34,130

Open int. 1,389

Total 1,389 1,389

MAIZE CBT (\$/cwt; cwt; cwt)

Close 279.0 +0.2 279.0 278.0 118,110

Previous 279.0 +0.2 279.0 278.0 118,110

High/Low 279.0 +0.2 279.0 278.0 118,110

AM Official 279.0 +0.2 2

HOTELS & LEISURE - Cont.

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100	127	48	236.5	4.3
101	127	48	236.5	4.3
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105	127	48	236.5	4.3
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107	127	48	236.5	4.3
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186	127	48	236.5	4.3
187	127	48	236.5	4.3
188	127	48	236.5	4.

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INVESTMENT TRUSTS - Cont.

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Name	Price	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995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CURRENCIES AND MONEY

MARKETS REPORT

Sterling extends gains

The currency markets had a quiet session as traders squared their books ahead of today's Thanksgiving holiday in the US and European operators sat back to wait for next Tuesday's UK Budget and Thursday's Bundesbank meeting, writes *Conner Middleton*.

Sterling extended Tuesday's gains against the D-Mark by another penny but ran out of steam just below key resistance at DM2.54 and edged lower on moderate volume, closing at DM2.5325, up from DM2.5275 on Tuesday. Against the dollar it ended at \$1.4880, from \$1.4855 on Tuesday.

This pound's rise follows Tuesday's 1/2-point cut in UK base rates. While many market participants are calling for another 1/2-point cut in coming months, the currency is widely expected to remain underpinned as the UK economy continues its gradual recovery and continental European central banks ease their interest rates more sharply than the UK.

"Many feel we're close to the trough for UK interest rates and the market is confident on lower European rates," said Mr Adrian Cunningham, senior currency economist at UBS.

The resulting interest-rate differential will favour the pound.

In the sterling money market, the Bank of England announced an early shortage of some £750m which was later revised downward to £650m. The Bank did not operate in the money market throughout the day but provided late assistance of £255m in the afternoon.

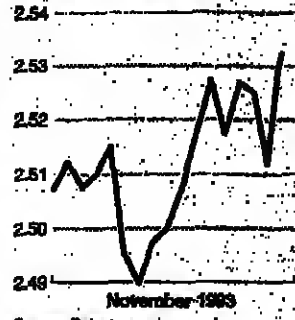
Meanwhile, the Bank of England set a weekly rollover rate for its special money market facility at 5 1/2 per cent. Last week the weekly rollover rate was established at 5 1/2 per cent.

The Italian lira recovered against the D-Mark after hitting a record low of L1,006 on Tuesday. It slid sharply following Sunday's elections which prompted worries over the country's political outlook and its government's ability to pass the 1994 budget.

The lira rose to an intra-day high of L986.25 against the D-Mark and closed at L985.5, up from L984.5 on Tuesday.

Sterling

Against the DM (DM per £)



Source: Datastream

Pound in New York

	Nov 24	Nov 23	Nov 22	Nov 21
Nov 24	1.4880	1.4855	1.4855	1.4855
Nov 23	1.4855	1.4855	1.4855	1.4855
Nov 22	1.4855	1.4855	1.4855	1.4855
Nov 21	1.4855	1.4855	1.4855	1.4855

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WORLD STOCK MARKETS

EUROPE									
Stock	High	Low	Open	Close	Change	Volume	High	Low	Open
AUSTRIA (Nov 24 / Fri)									
ATX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
BELGIUM (Nov 24 / Fri)									
BEX	3,450	3,400	3,420	3,420	+30	1,500	3,450	3,400	3,420
FRANCE (Nov 24 / Fri)									
CAC	3,450	3,400	3,420	3,420	+30	1,500	3,450	3,400	3,420
GERMANY (Nov 24 / Fri)									
DAX	2,450	2,400	2,420	2,420	+30	1,500	2,450	2,400	2,420
ITALY (Nov 24 / Fri)									
FTSE	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
NETHERLANDS (Nov 24 / Fri)									
AEX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
SPAIN (Nov 24 / Fri)									
IBEX	3,450	3,400	3,420	3,420	+30	1,500	3,450	3,400	3,420
SWITZERLAND (Nov 24 / Fri)									
SIX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
UNITED KINGDOM (Nov 24 / Fri)									
FTSE	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
EUROPEAN STOCK EXCHANGES (Nov 24 / Fri)									
Stock <th>High</th> <th>Low</th> <th>Open</th> <th>Close</th> <th>Change</th> <th>Volume</th> <th>High</th> <th>Low</th> <th>Open</th>	High	Low	Open	Close	Change	Volume	High	Low	Open
AFRICA									
SOUTH AFRICA (Nov 24 / Fri)									
ATX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
ASIA									
HONG KONG (Nov 24 / Fri)									
HSE	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
JAPAN (Nov 24 / Fri)									
Nikkei	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
MALAYSIA (Nov 24 / Fri)									
KLSE	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
SINGAPORE (Nov 24 / Fri)									
SEI	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
NORTH AMERICA									
CANADA									
TSX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
USA									
Dow Jones	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
AUSTRALIA (Nov 24 / Fri)									
ASX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770

Stock	High	Low	Open	Close	Change	Volume	High	Low	Open
AFRICA									
SOUTH AFRICA (Nov 24 / Fri)									
ATX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
ASIA									
HONG KONG (Nov 24 / Fri)									
HSE	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
JAPAN (Nov 24 / Fri)									
Nikkei	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
MALAYSIA (Nov 24 / Fri)									
KLSE	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
SINGAPORE (Nov 24 / Fri)									
SEI	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
NORTH AMERICA									
CANADA									
TSX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
USA									
Dow Jones	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
AUSTRALIA (Nov 24 / Fri)									
ASX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770

Stock	High	Low	Open	Close	Change	Volume	High	Low	Open
AFRICA									
SOUTH AFRICA (Nov 24 / Fri)									
ATX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
ASIA									
HONG KONG (Nov 24 / Fri)									
HSE	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
JAPAN (Nov 24 / Fri)									
Nikkei	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
MALAYSIA (Nov 24 / Fri)									
KLSE	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
SINGAPORE (Nov 24 / Fri)									
SEI	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
NORTH AMERICA									
CANADA									
TSX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
USA									
Dow Jones	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
AUSTRALIA (Nov 24 / Fri)									
ASX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770

Stock	High	Low	Open	Close	Change	Volume	High	Low	Open
AFRICA									
SOUTH AFRICA (Nov 24 / Fri)									
ATX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
ASIA									
HONG KONG (Nov 24 / Fri)									
HSE	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
JAPAN (Nov 24 / Fri)									
Nikkei	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
MALAYSIA (Nov 24 / Fri)									
KLSE	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
SINGAPORE (Nov 24 / Fri)									
SEI	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
NORTH AMERICA									
CANADA									
TSX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
USA									
Dow Jones	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
AUSTRALIA (Nov 24 / Fri)									
ASX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770

Stock	High	Low	Open	Close	Change	Volume	High	Low	Open
AFRICA									
SOUTH AFRICA (Nov 24 / Fri)									
ATX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
ASIA									
HONG KONG (Nov 24 / Fri)									
HSE	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
JAPAN (Nov 24 / Fri)									
Nikkei	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
MALAYSIA (Nov 24 / Fri)									
KLSE	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
SINGAPORE (Nov 24 / Fri)									
SEI	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
NORTH AMERICA									
CANADA									
TSX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
USA									
Dow Jones	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
AUSTRALIA (Nov 24 / Fri)									
ASX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770

Stock	High	Low	Open	Close	Change	Volume	High	Low	Open
AFRICA									
SOUTH AFRICA (Nov 24 / Fri)									
ATX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
ASIA									
HONG KONG (Nov 24 / Fri)									
HSE	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
JAPAN (Nov 24 / Fri)									
Nikkei	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
MALAYSIA (Nov 24 / Fri)									
KLSE	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
SINGAPORE (Nov 24 / Fri)									
SEI	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
NORTH AMERICA									
CANADA									
TSX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
USA									
Dow Jones	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
AUSTRALIA (Nov 24 / Fri)									
ASX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770

Stock	High	Low	Open	Close	Change	Volume	High	Low	Open
AFRICA									
SOUTH AFRICA (Nov 24 / Fri)									
ATX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
ASIA									
HONG KONG (Nov 24 / Fri)									
HSE	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
JAPAN (Nov 24 / Fri)									
Nikkei	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
MALAYSIA (Nov 24 / Fri)									
KLSE	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
SINGAPORE (Nov 24 / Fri)									
SEI	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
NORTH AMERICA									
CANADA									
TSX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
USA									
Dow Jones	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
AUSTRALIA (Nov 24 / Fri)									
ASX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770

Stock	High	Low	Open	Close	Change	Volume	High	Low	Open
AFRICA									
SOUTH AFRICA (Nov 24 / Fri)									
ATX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
ASIA									
HONG KONG (Nov 24 / Fri)									
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JAPAN (Nov 24 / Fri)									
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MALAYSIA (Nov 24 / Fri)									
KLSE	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
SINGAPORE (Nov 24 / Fri)									
SEI	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
NORTH AMERICA									
CANADA									
TSX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
USA									
Dow Jones	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
AUSTRALIA (Nov 24 / Fri)									
ASX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770

Stock	High	Low	Open	Close	Change	Volume	High	Low	Open
AFRICA									
SOUTH AFRICA (Nov 24 / Fri)									
ATX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
ASIA									
HONG KONG (Nov 24 / Fri)									
HSE	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
JAPAN (Nov 24 / Fri)									
Nikkei	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
MALAYSIA (Nov 24 / Fri)									
KLSE	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
SINGAPORE (Nov 24 / Fri)									
SEI	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
NORTH AMERICA									
CANADA									
TSX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
USA									
Dow Jones	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
AUSTRALIA (Nov 24 / Fri)									
ASX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770

Stock	High	Low	Open	Close	Change	Volume	High	Low	Open
AFRICA									
SOUTH AFRICA (Nov 24 / Fri)									
ATX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
ASIA									
HONG KONG (Nov 24 / Fri)									
HSE	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
JAPAN (Nov 24 / Fri)									
Nikkei	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
MALAYSIA (Nov 24 / Fri)									
KLSE	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
SINGAPORE (Nov 24 / Fri)									
SEI	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
NORTH AMERICA									
CANADA									
TSX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
USA									
Dow Jones	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
AUSTRALIA (Nov 24 / Fri)									
ASX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770

Stock	High	Low	Open	Close	Change	Volume	High	Low	Open
AFRICA									
SOUTH AFRICA (Nov 24 / Fri)									
ATX	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
ASIA									
HONG KONG (Nov 24 / Fri)									
HSE	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
JAPAN (Nov 24 / Fri)									
Nikkei	1,780	1,760	1,770	1,770	+10	1,200	1,780	1,760	1,770
MALAYSIA (Nov 24 / Fri)									
KLSE									

INDICES									
Index	Nov 24	Nov 23	Nov 22	Nov 21	Nov 20	Nov 19	Nov 18	Nov 17	Nov 16
EUROPE									
Austria ATX	1,770	1,760	1,750	1,740	1,730	1,720	1,710	1,700	1,690
Belgium BEX	3,420	3,410	3,400	3,390	3,380	3,370	3,360	3,350	3,340
France CAC	3,420	3,410	3,400	3,390	3,380	3,370	3,360	3,350	3,340
Germany DAX	2,420	2,410	2,400	2,390	2,380	2,370	2,360	2,350	2,340
Italy FTSE	1,770	1,760	1,750	1,740	1,730	1,720	1,710	1,700	1,690
Netherlands AEX	1,770	1,760	1,750	1,740	1,730	1,720	1,710	1,700	1,690
Spain IBEX	3,420	3,410	3,400	3,390	3,380	3,370	3,360	3,350	3,340
Switzerland SIX	1,770	1,760	1,750	1,740	1,730	1,720	1,710	1,700	1,690
UK FTSE	1,770	1,760	1,750	1,740	1,730	1,720	1,710	1,700	1,690
AFRICA									
South Africa ATX	1,770	1,760	1,750	1,740	1,730	1,720	1,710	1,700	1,690
ASIA									
Hong Kong HSE	1,770	1,760	1,750	1,740	1,730	1,720	1,710	1,700	1,690
Japan Nikkei	1,770	1,760	1,750	1,740	1,730	1,720	1,710	1,700	1,690
Malaysia KLSE	1,770	1,760	1,750	1,740	1,730	1,720	1,710	1,700	1,690
Singapore SEI	1,770	1,760	1,750	1,740	1,730	1,720	1,710	1,700	1,690
NORTH AMERICA									
Canada TSX	1,770	1,760	1,750	1,740	1,730	1,720	1,710	1,700	1,690
USA Dow Jones	1,770	1,760	1,750	1,740	1,730	1,720	1,710	1,700	1,690
Australia ASX	1,770	1,760	1,750	1,740	1,730	1,720	1,710	1,700	1,690

Weekend FT

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Monitor the week.

The new, improved Monday FT provides a unique insight into the week's events.

NYSE COMPOSITE PRICES

Table with multiple columns listing stock prices, volume, and market data for NYSE Composite Prices. Includes sub-sections for 'Continued from previous page' and various stock categories.

NASDAQ NATIONAL MARKET

Table with multiple columns listing stock prices, volume, and market data for NASDAQ National Market. Includes sub-sections for various stock categories and market indices.

AMEX COMPOSITE PRICES

Table with multiple columns listing stock prices, volume, and market data for AMEX Composite Prices. Includes sub-sections for various stock categories and market indices.

Table with multiple columns listing stock prices, volume, and market data for NASDAQ National Market (continued). Includes sub-sections for various stock categories and market indices.

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Table with multiple columns listing stock prices, volume, and market data for NASDAQ National Market (continued). Includes sub-sections for various stock categories and market indices.

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AMERICA

Economic data give gentle support to Dow

Wall Street

US share prices firmed slightly across the board yesterday morning, but trading was subdued ahead of the Thanksgiving holiday break, writes Patrick Harrington in New York.

At 1 pm, the Dow Jones Industrial Average was 12,339, up from 12,338 the previous day. The more broadly based Standard & Poor's 500 was up 1.61 at 462.64.

Brazilian equities rose by 5.5 per cent in moderate mid-session trading on continued "safe-haven" buying, ahead of possible anti-inflation measures and a drop in interest rates. The Bovespa index was quoted at 27,343, up 1,504, at 1300 local time. Newspaper reports saying that the government had issued a decree aimed at limiting legal objections to future government measures, for example on tax reforms, also provided support.

While the Amex composite was up 0.67 at 461.71, and the Nasdaq composite up 5.50 at 752.34, trading volume on the NYSE was 142m shares by 1 pm.

As on Tuesday, prices opened earlier yesterday following early gains in bond prices. By early afternoon the benchmark 30-year bond was up slightly, and the yield had

eased to 6.3 per cent. Bonds have rallied strongly over the past two days, which has helped alleviate the concerns of equity investors. With interest rate worries temporarily shelved, share prices have been able to post modest advances.

Although the day's economic news was mixed, it was positive for equities on balance. Government reports on weekly unemployment insurance claims and October durable goods orders were both moderately bullish, and sustained the recent pattern of statistics revealing a steadily expanding economy.

On the debt side, the University of Michigan's consumer sentiment index fell in November. This, however, did not surprise investors. Over the past year, one of the features of the economic situation has been consistently weak consumer sentiment.

While there was some steady buying, trading activity throughout the morning and early afternoon was relatively subdued, with many participants winding down their activities as they prepared to leave for the long Thanksgiving weekend.

Among individual stocks, technology shares were in favour. Hewlett-Packard put on \$1 at \$75.75, IBM (which bene-

fited from a ratings upgrade by the brokerage house, Smith Barney Shearson) added \$2 at \$55.40. Digital Equipment rose \$1 to \$70 and Texas Instruments added \$1 at \$65.50.

Philip Morris rose \$1 to \$55.50 as investors reacted positively to the news that the big food and tobacco group is planning a significant corporate restructuring that will involve a large number of plant closures and workforce reductions.

The restructuring, which involves closing 10 plants and 10,000 jobs, will force Philip Morris to take a charge of \$60m in the fourth quarter.

Auto stocks, hit by selling earlier in the week, rebounded. Chrysler rose \$1 to \$53.40, Ford \$1 at \$60.00 and General Motors \$1 at \$63.75.

On the Nasdaq market, heavy demand for technology stocks continued to power a rally in the Nasdaq composite.

Microsoft rose \$2 to \$79.75, Intel firm \$1 at \$74.00 and Dell Computer rose \$1 to \$24.40.

Canada

Toronto shrugged off concerns over Ontario's debt ratings and reports that the 1993-94 federal budget deficit may hit a record \$46bn and gains were posted in most sectors. The TSX 300 index rose by 13.00 to 4,238.26 at noon.

EUROPE

Paris suspends Euro Disney three times

In spite of Wall Street's morning gains, business tended to close yesterday less hopefully than they began, writes Our Markets Staff.

PARIS was boosted initially by buying on the first day of the monthly account, and by the CAC-40 slipped into negative territory at the close of trading, ending 0.88 lower at 2,070.61 on profit-taking and growing concerns about last-minute GATT negotiations.

Turnover was FF4.2bn. Euro Disney hit the headlines again, suspended limit down three times during the day before closing FF4.20, or 18.6 per cent lower at FF27.20 in volume of nearly 1m shares as the company waited for its banks and its US parent, the Walt Disney Co, to put a restructuring package together.

However, one of Tuesday's casualties, Elf Aquitaine, steadied with a fall of just FF1.10 to FF415.90 after a 3.5 per cent drop on a profits warning the day before. In New York, a Prudential Securities \$1M upgrade of the oil company to buy from hold on

this company's longer term attractions.

Among the winners, Societe Generale rose FF16 to FF681 after the bank's chairman, Mr Marc Vionot, said that he expected 1993 net profit to rise between 5 and 10 per cent.

MILAN rebounded after the cumulative 5.9 per cent fall of the previous two sessions as the prime minister, Mr Carlo Azeglio Ciampi, sought to calm the political situation by meeting the political parties that have given active and tacit support in parliament.

The Comit index rose 13.88 or 1.7 per cent to 326.27.

Mr Michele Pacitti of NatWest Securities commented that foreign investors were again viewing the market with a little more equanimity, although the situation remained fragile.

Telecommunications issues, sold heavily by foreign investors early in the week, made up some of the lost ground. Sip added 1.47 to L2.966 and Stat rose L21 to L3.471.

Olivetti climbed L204 or 12.2 per cent to L1,780: news that the company's Italian suppliers regained some of the

FT-SE Actuaries Share Indices

Nov. 24		Nov. 23		Nov. 22		Nov. 21		Nov. 20		Nov. 19		Nov. 18		Nov. 17	
FT-SE 100	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67
FT-SE 250	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67
FT-SE 350	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67

THE EUROPEAN INDEXES

Nov. 24		Nov. 23		Nov. 22		Nov. 21		Nov. 20		Nov. 19		Nov. 18		Nov. 17	
FT-SE 100	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67
FT-SE 250	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67
FT-SE 350	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67	1234.67

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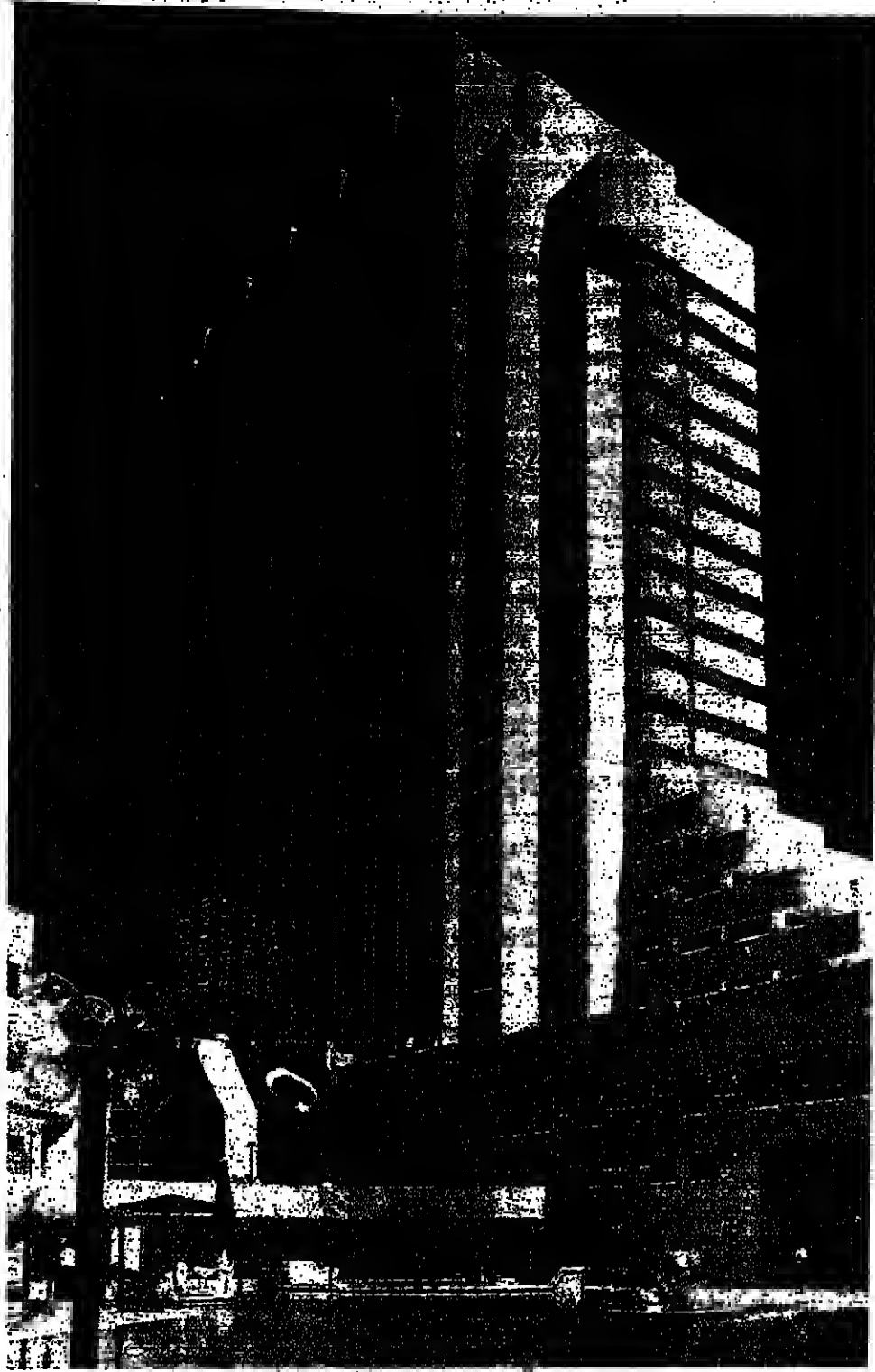
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TURKISH FINANCE AND INDUSTRY

Thursday November 25 1993



A hotel in Sochi, Russia, on the Black Sea, built by Gema Industry (Report, Page 3)

As winter sets in, Turkey skates uneasily on a rink of dangerously thin ice. While industry reports record profits and the stock exchange reaches new heights, the politicians in Ankara give the impression of lurching from one dilemma to the next, unable to offer solutions or even dictate their own agenda.

Turkey faces a looming crisis. The coalition government of Mrs Tansu Ciller is faced with a growing public deficit, a deterioration in the balance of payments and rising foreign debt. Already Moody's, the US rating agency, has said it is considering a downgrading, which could impair Turkey's access to the debt markets.

It seems only a matter of time before the escalating violence in the Kurdish-speaking region starts to impinge on the investment decisions of foreign companies in western Turkey. Mobil Oil of the US pulled out of the Kurdish area in September. All public works have been suspended after allegations that Kurdish rebels are demanding protection money from contractors. While the government refuses to countenance political and social reform for this hard-pressed minority, the violence can only get worse.

The next few months could well prove decisive as the campaign train rumbles into action ahead of municipal elections across the country in March.

The solitary comfort in this otherwise rather gloomy picture is that the economy continues to howl along. Growth for 1993 is set to exceed last year's 6 per cent figure, after a staggering second quarter which saw the gross national product increase by 12 per cent. Indeed, while the rest of Europe pulls wearily out of recession, Turkey is enjoying a consumer boom, fuelled by looser domestic credit and increased foreign capital inflows. But if this heady cocktail is attractive today, the after-effects are not likely to be so pleasant.

Against such a background,

Though the economy continues to bowl along, the public deficit is growing and the balance of payments is deteriorating. Meanwhile, Turkey is preparing for the challenge of customs union with the European Community in 1995. John Murray Brown reports

Skating on thin ice

corporate Turkey is now trying to prepare itself for the most momentous change in the trade regime in over 20 years. In 1995, harring upsets, a customs union will be established with the European Union. The motivation is as much political as economic. But the short-term cost to the Turkish economy will be considerable - a topic which is likely to dominate the negotiations which formally got under way at a meeting of the EU-Turkey Association Council early this month.

The implementation of a customs union will transform the face of Turkish industry. The charmed life of Turkey's large privately-owned companies, which have prospered behind high tariff barriers, is coming to an end. The market share of key sectors such as cars and consumer durables is likely to be squeezed by cheaper imports, particularly when Turkey adopts the EU's common commercial tariff for third countries, including eastern Europe.

McKinsey, the US management consultants, has just been employed to look at the car sector. The study will almost certainly conclude that Turkey's vehicle manufacturers are not ready.

Turkey's full membership of the EU is today a distant prospect. But both sides of the

negotiating table appear resolved to deepen the relationship. Turkey is fearful that it is slipping down the queue, with the EU's moves to invite applications from Scandinavia and eastern Europe. Even Turkey's membership of Nato and the Council of Europe no longer carries as big a cachet, as these two organisations also consider new applicants.

The next few weeks will be critical. Brussels will be watching for any sign that Turkey is going back on its undertaking to meet the next round of tariff cuts. All tariffs have to be reduced to zero in 1995. Industry complains at the failure of repeated governments to bring the budget deficit to heel. Managers say this has discouraged the long-term investment decisions necessary to upgrade technologies, the only way many local companies will survive the renewed competition which will follow customs union.

□ □ □
Much now depends on resolving the current political gridlock. When the coalition was formed in October 1991, there was popular expectation that the search for common cause would force both parties to moderate their positions - the right-wing True Path party (DYP), forced to take on a more reformist Kurdish policy

and the Social Democratic Populists (SHP), a more pro-business stance. That did not happen. Indeed with Mrs Ciller's appointment as DYP leader, and as prime minister in June, after Mr Suleyman Demirel's move to the presidency - the lines of communication have become even more atrophied.

Mrs Ciller's attempts to legislate by decree have now been abandoned. The sale of state enterprises and tax reform, the twin pillars of her bid to bring down the deficit, remain blocked. The courts, on appeal from SHP deputies, have moved to prevent the sale of the state telecommunications company, and are poised to take similar action in the case of Tek, the power utility.

Meanwhile, the long-awaited tax bill, which Mrs Ciller earlier withdrew from parliament in an effort to extend its provisions, has still to be debated. Few officials believe it can be legislated before the end of the year. In that case, its effects will not be felt until the 1995 tax year at the earliest.

In the absence of much progress on reform, officials are counting on strong economic growth to boost the fiscal side by increasing the tax take. The competition resulting from the surge in lower cost imports may also prove instrumental in restraining inflation, although it still hovers around 66 per cent. In turn, there is every expectation that the frenetic pace of industrial activity will have eased the unemployment problem.

More worrying is the reserves position, which while healthy now, cannot long be sustained while the current account deficit is projected at \$5bn. Foreign debt has risen sharply and is expected to have exceeded \$60bn with the latest spate of bond issues by the government.

Turkey's public sector borrowing requirement is not huge by the standards of many European countries. Indeed, given the narrowness of the tax base, there is plenty of room for fiscal consolidation. One difficulty will be convincing the public of the case for extra taxation, while implementing a slowdown and in

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Editorial production: Gabriel Bowman

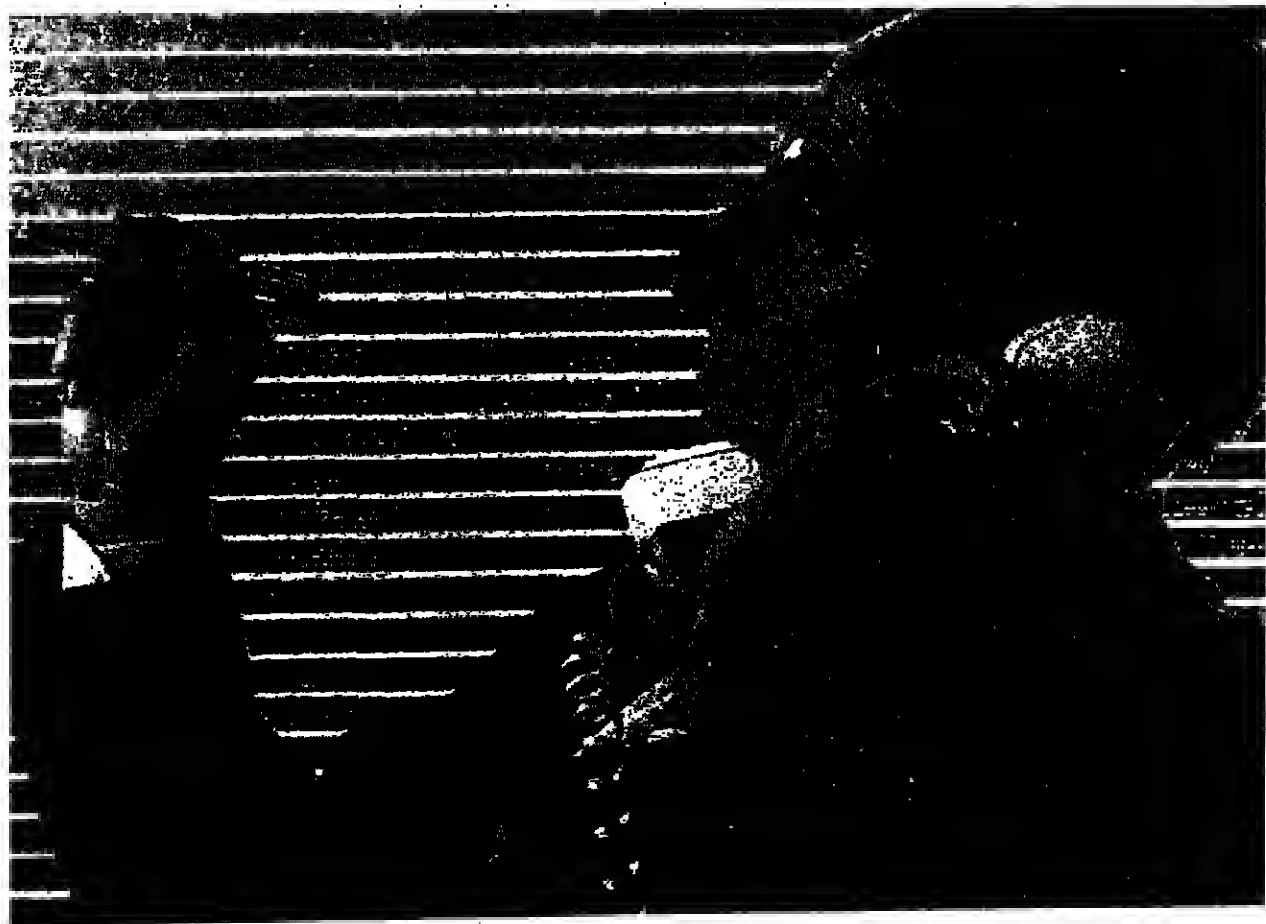
some cases a freeze on investment in public services and infrastructure.

On welfare, public health and education, there is a strong case for more spending rather than less. SSK, the rudimentary national health and retirement plan, is all but bankrupt, unable to pay its debts to the pharmaceutical companies. Many public infrastructure projects have come to a standstill and contractors complain that even the government is behind in instalments on the work already completed.

President Demirel, in a strongly worded speech earlier this month, warned of the dangers if early decisions were not made on a new generation of power stations. Energy experts have projected that without substantial new investment, Turkey could face a supply shortfall as early as 1995.

All eyes are now on the municipal elections in March. In 1991, the Motherland party government tried to spend its way to the polls - unsuccessfully. Given the current growth rate, Mrs Ciller hardly needs to pump-prime the economy. Should the DYP make strong gains next spring, it will be tempted to break with the SHP and call early general elections. But unless there is a new consensus, Turkey will continue to have difficulties in addressing its mounting economic problems.

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TURKISH FINANCE AND INDUSTRY 2

Public sector borrowing is too high, and the balance of payments is under strain, says John Murray Brown

Action needed on financing problems

The crunch is coming, on that point government and private sector economists seem agreed. The only question is when. For no one believes the fiscal profligacy currently practised can be sustained while annual inflation is nudging 70 per cent.

Recent turbulence in the foreign exchange markets suggests that traders remain unconvinced of the government's commitment to address the structural issues on the budget. Domestic interest rates also appear to be edging up, adding to the government's short-term financing problems and further delaying the recovery in private sector investment.

The root cause remains the government's failure to address the problem of its own finances, with the public sector borrowing requirement officially set to rise to 16 per cent of gross national product in 1993 against a 9 per cent target. The situation is exacerbated by the deteriorating picture on the trade account, which is putting the balance of payments under strain for the first time since the early 1980s when Turkey last rescheduled its foreign debt.

But if the impression sometimes given is that Turkey is heading towards the brink, the business community is confident that with a firm hand on the helm the situation can be turned round.

Prudent management of the reserves should give the authorities a comfortable cushion to withstand external shocks. Indeed, the long-term health of the economy is not in doubt. The historical trend of foreign investment approvals, the best indicator of confidence, continues to rise. The

UK, for example, seems to be preparing for its second coming in Turkey.

The first wave of UK investment in the mid-1980s was led by Polly Peck International, the fruit-to-electronics group, run by Mr Asil Nadir, the Turkish Cypriot businessman. After the group's collapse, the Department of Trade and Industry is trusting that the next investment generation will prove more robust.

As if to underline the point, the DTT has just opened a Turkish investment office. The British Chamber of Commerce in Turkey is hosting a series of workshops in London in April in a bid to attract investment.

In the last decade, the country has come a long way. This

The long-term health of the economy is not in doubt

is underlined by the recent resurgence of the Istanbul stock exchange, and the ability of the Turkish private sector to tap international debt markets. But Turkey's real problems are short-term. Every day the authorities bank at the need for reform, the problems deepen.

The policy challenge is to curb inflation while sustaining sufficient growth to create jobs for a population that is approaching 60m. It is a difficult trade-off and the task has

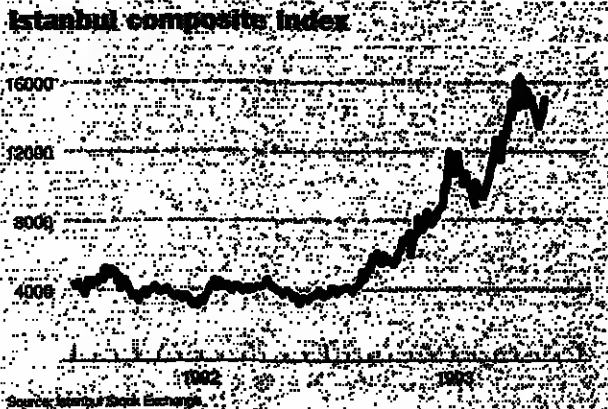
become much harder since the liberalisation of exchange controls in the mid-1980s. Turkey's economy is now more vulnerable to policy error. For a condition, divided on some of the basic tenets of economic policy, the balancing act is that much more perilous.

The government has made some progress in lengthening its debt maturities, through tax changes encouraging investors to hold longer-term paper, nine-month or one-year bills rather than three-month paper. The profile of Turkey's foreign debt has also improved slightly, shifting attention from the syndicated loans to bond issues.

Progress on both privatisation and tax reform has been more disappointing. Both policies have been stymied by political wrangling. The possibility that the proposed new tax law may be passed by the end of the year looks remote. Recent increases in value added tax may raise some revenues but could also encourage the already widespread problem of tax avoidance.

One area where the government has had some success is in the reform of agricultural subsidies, a continuing burden on the budget. Cotton prices have been partly deregulated. Attention has now turned to tobacco. And for the first time the subsidies are to be consolidated into the central government budget.

For all that, recent indica-



tors suggest the policy dilemma is still unresolved. In the second quarter growth exceeded 12 per cent, as imports surged and domestic consumption continued to be fuelled by easy credit. Some economists explain the latest figures as evidence of pent-up demand held back during the period of the Gulf War. However, few believe such a performance is sustainable, without serious implications on the fiscal and monetary side.

The trade deficit by August had reached \$9.4bn with imports rising to almost \$18bn, much of the increase being in consumer goods. While remittances from workers overseas have remained steady, tourism - the other main invisible trade item - is down following terrorist attacks by PKK, the Kurdish Workers' Party.

The current account is

expected to be in deficit to the tune of \$5bn by the year-end, compared with just under \$1bn in 1992. On the capital account, the balance of payments, Turkish stocks have attracted increasing foreign portfolio investment. Changes in the rules on foreign funds should hasten the trend.

However, actual direct fixed capital inflows have slowed down, partly as a result of the contraction of government projects work. Companies also seem hesitant to commit themselves before Turkey's expected move to a customs union with the European Community when trade barriers will be reduced to zero and imports are likely to surge further.

To make up the shortfall on the capital account, the government this year has gone to the bond markets for \$3.8bn. Turkish foreign debt - both

public and private sector - is now a dizzy \$65bn, up from \$54bn at the start of the year.

The increase in the debt is also explained by the number of Turkish banks resorting to offshore borrowing to fund their lira loan book, a strategy which will remain attractive as long as the central bank continues its strong lira policy. There is also a growing appetite among Turkish depositors to keep their savings in foreign exchange.

The increased capital flows have strengthened the reserve position. At the end of September, total international reserves of the central bank and commercial banks stood at \$18bn, equivalent to about eight months of imports.

However, the government's latest rush to the international markets was prompted more by concern over the announcement that Moody's, the US rating agency, is reviewing Turkey's credit standing. Any move to downgrade Turkey from investment to speculative category could cut off a whole range of institutional investors, at least in US markets. It could also upset Turkey's debt strategy which has been heavily dependent on bond issues in the last two years, helping to lengthen the maturity of government and spreading the investor base.

The worst prospect is that the government could be forced to return to the syndicated loan markets. Such an

outcome would produce a crowding-out effect for the Turkish private sector banks. They would then be forced back to domestic borrowing, pushing up interest rates as they seek to attract depositors and move to close their foreign exchange open positions.

When she succeeded as prime minister in June, Mrs Tansu Ciller warned that 1994 would be a difficult year, with the growth rate falling to 4.5 per cent. Many governments would welcome such a prospect, but in Turkey, after a decade averaging closer to 6 per cent and in the wake of this year's likely figure of 5 per cent, the decline is hard to accept.

The new budget presented to parliament envisages a deficit of TL193,000m. Personnel expenditures remain the largest item at TL255,000m, while interest payment on the government's debt is projected at TL217,000m. The budget deficit is around 8.5 per cent of GNP. However, when the losses of state enterprises, municipalities and other funds are taken into account, the PSBR is targeted to reach around 14 per cent of GNP. Many banks in Istanbul believe the figure could be closer to 20 per cent.

Downgrading the credit standing would upset Turkey's debt strategy

The size of the deficit, while worrying, is not itself a problem. The main issue is how to finance it. The treasury is hoping to raise around \$1.5bn in privatisation revenues and to go to the international debt markets for another \$1.5bn.

But given the narrowness of domestic capital markets and signals that international demand for Turkish paper may be cooling off, the temptation will be for the government to resort to monetary financing. The central bank law currently allows the government to go to the bank for up to 15 per cent of budgetary outlays. In 1994 this would result in a 50 per cent increase in broad money M2, with all that means for inflation.

Hitherto, the bank has intervened in the market, selling dollars to absorb the excess lira liquidity, in effect "sterilising" the monetary expansion. But with Turkey's external account under some strain, the bank is likely to have less room to manoeuvre.

Apparent indecision on the correct level for the lira is creating additional uncertainty. Since June, the monthly devaluation has averaged 5 per cent against the basket of currencies, compared with 3 per cent for the first half year.

The more rapid depreciation may help exporters who have been losing market share because of the overvalued lira. But as the pace of depreciation speeds up, so the lira cost of the government's foreign debt repayments rises. The competitive advantage gained by exporters is very quickly eroded by increases in inflation. Sooner rather than later, Turkey will have to break out of this vicious circle.

The balance is shifting from the public to the private sector

Banking enjoys a shake-up

Few Turkish industries have welcomed the government's commitment to Europe quite as readily as the banks. A new decree, passed with the effect of law in September, brought Turkey into line with its European competitors in a number of important areas and marked a further deepening of the financial sector.

The confidence is readily apparent. On the Istanbul stock exchange the banks listed are among the most profitable and heavily traded stocks. For the first time a Turkish bank has floated shares internationally, with Garanti Bankasi selling \$103m worth of stock through an American Depositary Receipt in November.

With growing frequency, the private sector banks are able to tap international debt markets. A whole host of banks have successfully ventured into the markets including Korfaz, Turkey's most profitable bank, which raised \$25m in a one-year loan arranged by Bank of New York. In November Akbank, Turkey's largest family-owned bank, was due to conduct its first-ever foreign syndication - a \$100m one-year borrowing. Mr Erol Sabanci, the bank's chief executive, said that at point 85 over London Inter Bank Offered Rate, the deal underscored Akbank's standing as the best rated bank in Turkey. The Turkish banking indus-

try is still dominated by the state with the five state banks accounting for close to half the total assets, which at the end of 1992 were around \$67bn. The largest private sector banks are run by family holdings, including Sahanci's Akbank, Cukurova's Yapı Kredi, Pamukbank and Interbank or the Dogus Holding's Garanti.

But the new law should help shift the balance in favour of

For the first time a Turkish bank has floated shares internationally

the private sector. For the state banks, like others, are being forced to improve their capital ratios. With the government reluctant to inject new capital into the state banks, the only way to meet the targets is to run down their equity participations and reduce their loan book.

Troubled banks can be forced into liquidation, where before they were absorbed by a state bank. "It's a long overdue signal that depositors will have to take the risk of a bank

into account," says Mr Ibrahim Bevil of Ekspresbank.

In the case of a failed state bank, the government will continue to step in. Last year, the government announced that Tobank, the teachers' bank, was to be merged with the Halk Bankasi and Denizcilik Bankasi, the maritime bank, was merged with Emlak, the state housing bank.

The wholesale privatisation of the big state banks, such as Ziraat and Emlak, may be some way off. Ziraat is more like an arm of the treasury, dispensing credits to farmers and using its extensive branch network to pay civil servants and other government employees in rural areas.

But on a smaller scale, the banking operations of Sumnerbank, the textile manufacturing and general retailing outfit, have been offered for sale. Similar moves have been made to allow for the disposal of the banking side of Etilbank, the minerals concern.

A more promising prospect is the government's planned sale of its 12 per cent stake in Turkey's largest commercial bank. The shake-up in the state

sector is mirrored by a rapid restructuring among private banks. Banks are closing branches and laying off staff while enhancing electronic banking. In less than a decade, Turkey has moved from a relative lack of sophistication to become a modern industry. But for most Turks, the plastic card is not so much an instrument of credit as a way to obtain cash.

Most transactions are still done on a cash basis. The main threat for introducing automatic teller machines (ATMs) was "to keep the customers out of the bank," says Mr Akın Ongor of Garanti. His bank is leading the way in computerisation, with all 201 Garanti branches now using real time clearing systems.

The development of electronic banking has also forced banks to improve their credit supervision. "Today you can go to 10 different banks and get a card from each one and no one will know," says Mr Ongor. The foreign card companies like Visa are said to be concerned by the growing number of defaults.

In parallel with these moves, many banks are boosting their consumer lending business, still a fairly small share of most banks' asset books. Garanti says consumer credit currently accounts for around 4 per cent of its total loans. Corporate loans making up the lion's share. But as interest margins on corporate lending have narrowed, banks are turning to consumer loans.

Garanti says it intends to increase its operations. Consumer credit is particularly attractive for the banks with links with big corporations, which can then offer customers hire purchase financing. Koc, the largest holding company, is boosting its banking services, in part to take advantage of the booming car sales and sales of consumer durables, two sectors where it has a dominant position. Akbank is developing its consumer credit facilities to finance Toyota's joint venture with its parent, Sabanci Holding.

In 1992 the government lib-

eralised the rules on the issue of asset-backed securities. The securitisation of various debt instruments such as car and housing loans has been a popular practice in recent months, providing banks with a cheaper source of funds. By shifting the risk of default to new investors, it also reduces the onerous capital adequacy requirements set under the new law.

But the broader economic impact is potentially more dangerous. "The banks have now been given an incentive to lend to customers for consumption," says a foreign economist.

In a related issue, in October a number of banks applied to the Capital Markets Board to be allowed to issue commercial paper. Again, like securitised loans, this is seen as a cheap funding for banks as it would not incur liquidity requirements set by the central bank.

However, under the current rules only investment banks, which are restricted from taking deposits, municipalities, corporations and state enterprises are allowed to issue commercial paper. No decision has been made to allow banks to issue commercial paper. Nonetheless, the issue has thrown into relief the tension between the need to deepen the financial markets and the perhaps more pressing concern of the banking authorities to keep a hold on money supply.

Currently for every 100 lira put on time deposit with a bank, on average 46 lira has to be held as reserve or liquidity requirements - in effect, it is a tax on the banking system.

Call deposits are a slightly cheaper way to raise funds. As a result the intermediation costs - the spread between deposits and credits - keep interest rates high. Another result is that rates between

different banks can vary as much as 15 per cent. "Nowhere in the world are interest rates quite as free as in Turkey," says Mr Erol Sabanci, disapprovingly.

Inflation continues to make it difficult to assess bank performance. IBCA, the London-based rating agency, estimates that most major banks in Turkey saw a negative return on equity in 1992.

Mrs Tansu Ciller, the prime minister, has pledged to reduce bank costs in a bid to bring down interest rates. However, there is little possibility that while the government deficit continues to grow.

The sector has other more urgent problems. The banking authorities are watching closely the foreign exchange exposure of many private sector banks as they seek to fund their lira business by borrowing offshore. Given high real interest rates offered in lira deposits, the attractions of borrowing offshore are enormous. Garanti estimates that currently 27 per cent of its profits result from trading on its short positions.

Garanti was the most profitable of the large privately owned banks in 1992. The bank, however, remains cautious. "We have a policy that the open position should not exceed the equity of the bank," says Mr Aclan Acar, a director. "That means the shareholders take the risk, not the depositors. We've suggested to the central bank that they should make this rule applicable to all banks."

But the danger, particularly with the government indicating that it favours a more rapid depreciation of the lira, is that it could result in a massive one-way currency flow as banks seek to close on their foreign exchange positions.

John Murray Brown

Profile: ISBANK

Party fights for Atatürk shares

Turkey's founder, Mustafa Kemal Atatürk, must be turning in his grave as politicians and bureaucrats squabble over the shares in Türkiye İş Bankası that were left in his will, writes John Murray Brown.

Atatürk's holding in the country's largest commercial bank is today the subject of a running legal battle between the Turkish treasury and his old party, the People's Republic Party (CHP).

Isbank has a unique place in the Turkish banking hierarchy. It was a pioneer in many of Turkey's key industries, a role which made it seem more like a Japanese or German bank than an institution from the Anglo-Saxon world. Isbank was a partner with Unilever, the Anglo-Dutch conglomerate, and had shares in the Cukurova power utility, which it sold at a handsome profit to the Uzan family. It is now selling many of these stakes to meet capital standards.

Isbank's curious share structure means the bank is neither state-owned nor truly in the private sector. Its largest shareholder until recently was its pension fund, with close to 40 per cent of the stock. The Treasury owned 12 per cent, while around 20 per cent remained in the hands of the Atatürk family. It is now selling many of these stakes to meet capital standards.

But when Atatürk died, entailing his holding to the CHP, he can hardly have envisaged that all political parties would be outlawed in the wake of the military coup in 1980.

The current dispute surfaced when the ban was lifted. It was

decided to revive the CHP. However, at Isbank's annual general meeting, the board ruled that the CHP was entitled not to 20 per cent, but to just 2 per cent of the bank.

The logic is that during the period of the ban, it was the presidential secretariat which had held the shares. Dividends were distributed to the Turkish Literature and History Society, another condition of Atatürk's will. However, the capital increases - a common practice in Turkey where inflation is close to 70 per cent - were met out of the treasury coffers. The CHP thus found its holding dramatically diluted.

The party, not unreasonably, is now claiming title to its original stake in full, even if it means paying for the capital contributions. It argues that, while it was banned, it was not exactly in a position to participate in the capital increases.

The CHP has some public support. And if there is some reservation over the general philosophy of privatisation, there is likely to be specific resistance to the idea of selling off Atatürk's shares in Isbank, as the government is planning.

The twist in the tale is that the government now says it plans to sell the 12 per cent it does own while the court case with the CHP continues. This would allow the pension fund to buy the shares and become the majority owners of the bank. This may prove far more of a threat to the current management of the bank than any arcane legal argument about who owns the Atatürk shares.

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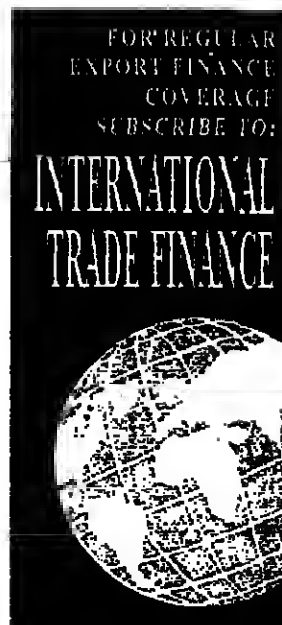
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TURKISH FINANCE AND INDUSTRY 3

Sheila Jones on the dynamism of the country's construction sector

How TV got Gama to Russia

As Russian troops blasted the White House building in Moscow during the anti-Yeltsin rebellion, executives at Gama Industry in Turkey watched on television with particular interest. For they were working out how to put the building back together again.

Within days of the ending of the rebellion on October 4, Gama was on the phone to Moscow. A verbal agreement was secured on October 14, and Gama workers were on site the next day.

It is only a small contract - \$17m for the first phase of repairs - but Gama, one of Turkey's leading construction and engineering groups, was keen to establish a reputation in Russia.

It is a story that illustrates the relative dynamism of Turkey's private sector. Gama is owned by its managers and other key employees, although it is considering a stock market flotation.

Gama earns much of its income from public contracts at home. It undertakes big infrastructure projects, including hydroelectric schemes, a new underground rail system and residential building. But while the government is battling to contain costs and reduce the budget deficit, Gama is looking overseas for new work.

"Spending on infrastructure projects is our bread and butter," says Mr Ergil Ersil, Gama's managing director. "But on the other hand, Turkey has to cope with an inflation problem. To reduce inflation, this government, or any other government, needs to curb investment."

"A second point is that Turkey is borrowing - securing foreign financing to support such projects. There is a limit to this ... As much as we want to do more

work in Turkey, we realise there are limits." The domestic market, according to Mr Ersil, cannot be relied on in coming years to sustain Turkey's large construction sector, which contributes about 5.5 per cent to gross domestic product.

Along with many other companies in the sector, Gama has grown steadily by tapping the overseas market. It is the second major push by Turkish contractors in recent years to bolster earnings abroad because of a tightening domestic market. Turkish construction companies produced spectacular growth overseas in the mid-1980s because of a depression in the industry at home in the early 1980s.

In the past year, contracts won overseas have pushed Gama earnings towards an even split between domestic and foreign work. Turnover more than doubled last year to \$97.8m, producing pre-tax profits of \$7.62m against \$3.97m in 1991. It currently has \$60m in contracts in progress, and says it is close to concluding a further \$50m. Contracts secured in the past two to three years have averaged about \$300m.

Gama has targeted Russia and other countries in the Commonwealth of Independent States for expansion. It believes that, despite the uncertainties, there are vast opportunities in Russia's wide-open market. "No matter what, even if governments change, there will be a need for our services," says Mr Ersil.

The company, which employs on average around 5,000 contract workers, has operated in eastern Europe since 1986 in a joint venture with four other Turkish contractors. Last year, Gama pulled out of the Mir Construction partnership to build up its work as a single operator. As a result, nearly half of its new business volume last year came from Russia.

Gama recently completed a 650-room luxury hotel in Sochi on the Black Sea coast, in which the company retains a 15.6

per cent interest. The \$35m hotel, which is due to take its first guests by the end of the year, is operated by Radisson, the US hotels group. The contract did not produce a huge profit for Gama, but like the White House deal, it was important in terms of visibility.

Gama earns much of its income from public contracts at home. But while the government is battling to contain costs and reduce the budget deficit, Gama is looking overseas for new work

"We see the hotel as our show case in Russia," says Mr Ersil. "It has the best of everything - carpets from the UK, wallpaper from Belgium, kitchens from Sweden, marble from Turkey."

Gama's investment in the hotel represents a further strand of diversification. It is shifting away from construction into property, mining and tourism. Construc-

tion is still the core business, but, says Mr Ersil, "there are ups and downs in contracting work, so we are investing in a way that will provide more constant returns and improve overall cash flow."

Other big contracts in Russia include a \$78m complex in Moscow for Gazprom, Russia's gas distribution company. Work began in April on its 35-storey headquarters, due to be completed by mid-1995. The company is also building a \$12.5m hotel and offices in Tyumen, western Siberia, to

service the oil and gas industry. It recently completed work with Babcock and Wilcox International of Canada on a \$100m heat-waste project in Bratsk, east of Lake Balkal. The project, for which Gama won \$35m of the work, was to convert heat generated at a pulp and paper mill into energy.

Gama's push in eastern Europe could underpin growth for the company in coming decades. Earlier this month, Turkmenistan signed a letter of intent with a US-Turkish consortium, including Gama, that could lead to the construction of a \$4bn natural gas pipeline across Europe. A feasibility study on the project is under way.

The company has secured small contracts in Turkmenistan, including a \$10m scheme for a mosque, financed by a Turkish government grant. But it believes that opportunities are limited in other Turkic states, which it says would be hard-pressed at the moment to secure western financing.

Gama is established in the Middle East, particularly in Saudi Arabia, although it has secured fewer contracts in the region recently than it had hoped. Elsewhere, the company signed a \$50m contract last month to build a cement plant in Malaysia in partnership with Krupp of Germany.

Several high profile contracts are under way at home. Work began in March on the first phase of Ankara's underground metro rail system. Gama has secured a \$380m contract shared with Guris of Turkey to build a 15km line and station from the city centre to the west, due to open by the end of 1995 or early 1997. Other companies in the project include Bombardier and SNC Engineering of Canada.

One of Gama's biggest contracts to date is for a 672MW hydroelectric power dam on the Euphrates river at Birecik close to the Syrian border. Gama and Philipp Holzmann are leading a European consortium on the \$1.2bn contract, which was signed nearly a year ago. Gama says it hopes financing arrangements will be finalised soon.

The project is a build, operate and transfer (BOT) scheme, under which the consortium of Turkish, German, Belgian, French and Austrian contractors build and operate the dam and then transfer it to the government under a 15-year contract. Gama has a 18.4 per cent stake, Philipp Holzmann 18.4 per cent, TEK, Turkey's state electricity company, has 30 per cent, and the other three companies hold smaller stakes. The financing package will be in export credits and commercial loans. The dam, which will take more than five years to build, is part of Turkey's south-east Anatolian project to provide irrigation and power in the poor and arid south-east.

Gama has linked up with Thames Water of the UK on a \$700m water supply scheme for the city of Izmit, east of Istanbul. The plant was to have been financed by government money, but it was converted to a BOT scheme when the budget allocation was cut. Financing, which is still to be finalised, will now come from export credits, commercial loans and direct investment by the partners.

Gama will construct the dam and pipelines. The water treatment plant will be built jointly with Thames Water, the majority owner, which will operate the plant. The project is underpinned by government guarantees to buy the water and energy.

For the moment, Gama will continue to look east, towards Asia and the CIS, for future growth. It believes that while Ankara's politicians look west, to membership of the European Union, it will be some time before Turkish industry as a whole will be able to compete effectively in western European markets.

THE STOCK EXCHANGE

The market moves ahead

In a small alley off Istanbul's docks, young share traders stream through the doors of a tattered building each morning and head for the trading floor, writes Sheila Jones.

They work shoulder to shoulder, ducking past each other to buy and sell shares in the 156 companies quoted on the Istanbul Stock Exchange.

Conditions are cramped in the market's temporary home. Yet the Istanbul exchange has produced the best performance among the world's emerging markets so far this year. Istanbul's 60-share composite index has scaled new heights this month. It has climbed from 4,000 at the start of the year to around 16,500 today.

The Istanbul Stock Exchange, a baby among emerging markets, is growing up. Ten days ago, the Istanbul market joined the 21 exchanges around the world granted "designated offshore securities market" status by the US Securities and Exchange Commission. This means the procedure for companies seeking listings overseas can be simplified, in

recognition of the market's own regulatory system.

Daily volumes on the exchange have tripled since 1991 to average \$75m this year, with 120m shares changing hands each day. Foreign investors now account for 25 per cent of total volume. Market capitalisation, which had reached just over \$2.2bn by the end of the first-half this year, is now estimated by the Stock Exchange to be close to \$3bn, helped by sales of shares in companies being privatised.

Like many emerging markets, the Istanbul exchange has been fuelled by foreign interest in countries enjoying stronger economic growth rates than in the developed economies. And while Turkey is grappling with a huge budget deficit and inflation of around 65 per cent, the corpo-

rate sector is producing healthy profits.

"There's no real connection between the macro side and the performance of companies, which are continuing to do well into the third quarter this year," says one London broker. "Economic growth is up 12 per cent in the second quarter and up more than 9 per cent year on year. Annual growth will be at least 7-7.5 per cent, so companies are thriving."

The market is due to switch to computerised trading on December 3 with 50 less active shares and the whole market should be screen-based within 12 months.

Mr Yaman Tüner, chairman of the Istanbul exchange, believes the switch to an automated trading system will lift volumes substantially. "We can double volume within a

year," he says.

The exchange has been further stimulated this year by legislation introducing substantial tax incentives for mutual funds with 25 per cent of shares in Istanbul-quoted companies. This has attracted more investment from the institutions.

"Since January, the market has moved ahead mainly because of encouragement for institutional investors, and improvements in legal procedures," says Mr Orkan Gökdemir, of Carpi Securities in Istanbul. "Many shares were undervalued by price/earnings ratios of under 10. So the market was cheap."

Mr Korhan Kuroglu, of Ata Securities, also believes Istanbul shares are undervalued. He adds that company procedures could be further improved to

encourage investment in the market.

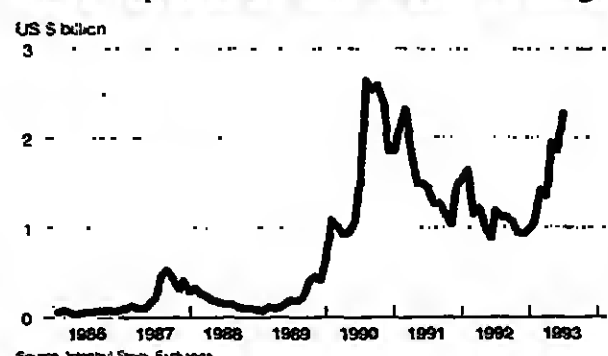
"Accounting and reporting procedures could be improved, and so could the control of insider trading although there is no system that works 100 per cent."

The market's bull run has continued this month, helped by an easing in interest rate policy and by the government's pledge to press on with privatisation. Brokers say the market is eager for new issues and ready to take whatever the government can get to the market in coming years.

While some brokers fear the market has reached the top and might be vulnerable to profit-takers, many believe it is heading yet higher.

"There has been a tremendous run this year with the index rising fourfold," says Mr

Market capitalisation: Istanbul Stock Exchange



Emre Yigit, of Global Securities in Istanbul. "At these levels the majority of shares are fairly valued and the prospect of a significant run-up in prices is not that bright. But a number of stocks are undervalued and there are still bargains."

Mr Yigit believes the fundamental health of corporate earnings could underpin the market for some time. "The corporate situation is good - some companies are regularly clocking up earnings growth of

20 per cent," he says. "And in the long run, inflation can be brought down - the causes are not insurmountable ... people will continue to invest in Turkey."

Mr Atilla Yesilada, of Karon Securities, shares a belief in the market's long-term strength, but he is cautious about the market's immediate direction. "My gut feeling is that it has to go down, though I don't see it going below 12,000. But long-term prospects

are tremendous ... corporate sector earnings are robust and the economy's growth rates are unbelievable."

The exchange is due to move to its new Istinye premises in the business district of Istanbul in April next year. By then, trading should be fully automated and perhaps operating on higher volumes than ever before.

Its direction depends in part on the outcome of municipal elections next March, and whether or not Mrs Tansu Çiller, the prime minister, can strengthen her position, and push through privatisation and radical restructuring of industry.

It is likely the stock market will look to the corporate sector for direction in the meantime. And it will watch the progress of its footballers. On November 4, the Istanbul index jumped 500 points the day after Galatasaray knocked Manchester United out of the European Cup. Like stock markets the world over, the Istanbul exchange enjoys a bit of good news.

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TURKISH FINANCE AND INDUSTRY 4

John Murray Brown says businesses are worried as the customs union deadline approaches

Industry prepares to lobby on tariff cuts

In Turkey, Euro-sceptics were once a rare breed. Not any longer, it seems. With the government preparing to cross the historic threshold and enter a customs union with the European Union in 1995, many Turkish businesses are awaking to the fact that Turkey's trade policy will very soon be determined by the grey men in Brussels.

Europe is vital to the Turkish economy. The EU already accounts for 50 per cent of Turkey's exports. In turn, Turkey takes close to 40 per cent of its imported goods from the EU. Total trade between Turkey and the EU is expected to exceed \$20bn in 1993. The EU accounts for more than half of Turkey's total foreign investment.

Under the terms of the additional protocol of the 1963 Ankara Association Agreement with the EU, Turkey will reduce its high tariff wall. That is expected to result in increased capital flows to Turkey. The broader impact is that competition from EU imports will encourage greater efficiencies and force companies to upgrade their technologies. Turkey will also be required to introduce legislation to harmonise Turkish trade and commercial policies with the EU countries.

In parallel with the customs union negotiations, convergence in services is proceeding apace. Under a new law, the banking industry recently saw changes in capital ratios which bring it more in line with European standards. One of the

remaining restrictions on foreign banks is a requirement that paid-up capital is converted into Turkish lira. Foreign banks are thus required repeatedly to inject new capital, as inflation takes its toll. New rules have been recently introduced for the insurance sector.

The two sides have also outlined a raft of legislative changes which should be in

The legislative changes might be a heavy workload, given the snail's pace of bills through parliament

place to complement the customs union. The issues cover intellectual property rights, state aid and competition policy. This might seem like a heavy workload for Turkish legislators, given the current snail's pace with which bills secure passage through parliament.

However, officials point out that should there be an agreement of the Uruguay Round of the General Agreement on Tariffs and Trade, Turkey would have to comply with many of these pieces of legisla-

tion to meet its Gatt obligations.

Commission officials make clear that the implementation of a customs union is a technical exercise which does not require any further treaty negotiations. It does not even have to be ratified by the European parliament. To meet the deadline, Turkey will have to reduce tariffs and non-tariff barriers to zero, while adopting the EU's common commercial tariff for third countries.

Turkey would, in addition, be required to assume the EU's preferential trade policies and defensive measures such as anti-dumping towards third countries. This would apply to the voluntary restraints with Japanese car imports, as well as preferential trade arrangements with the Maghreb and other Middle East countries including Israel and Jordan.

Customs union will have a sectoral impact on Turkish industry, as well as budgetary ramifications for the government. On the budgetary side, the government calculates the loss of import duties at about \$3bn, including the scrapping of the Mass Housing Fund, now levied on a

range of luxury goods imports. This figure would be offset by an increase in import volumes which would add an estimated \$1.5bn to \$2bn to Turkey's already large trade deficit. The EU is now understood to be considering ways to provide the Turks with some form of financial assistance, which avoids being blocked by the use of the Greek veto.

For many Turkish industries, the tariff cuts represent a considerable loss of protection. Today, according to EU calculations, the average protection rates for a sample of 501 industrial products are still around 15 per cent, despite a reduction of 6 per cent at the start of 1993. The Treasury is now compiling the details of the import regime for 1994. "There will have to be a strong signal that the government is going ahead with customs union," said one European Commission official.

The Commission's concern is that some powerful industries are preparing to lobby to see protection retained beyond the deadline. The sectors - motor vehicles, white goods and packaged foods - are seen as particularly vulnerable.

Commission officials are adamant that this would be in contravention of a customs union. They also warn that some member states may use this as a pretext to retain the current quotas on Turkish textile imports to the Community.

With around \$50m of exports in 1992, the textiles industry is Turkey's largest exporter, accounting for 36 per cent of the

Removal of European quotas will suit the textile industry, but the car sector faces a blast of competition

country's total export earnings. Turkey is already the biggest supplier to the EU despite the quotas, accounting for 10 per cent of EU textile imports. The removal of quotas would provide a welcome boost to the industry.

The motor vehicle sector, on the other hand, is bracing itself for an old blast of competition. The industry is dominated by the local operations of Fiat of Italy and Renault of France. Local producers currently enjoy very high protection. On pas-

senger vehicles less than 2,000cc, import duties are charged at 39 per cent.

The car sector is now rushing to reinvest in new lines, and introduce new models to compete against imports. The threat to market share is not so much from EU manufacturers, who already account for the top end of the market. The main concern is over increased shipments of Skodas and Ladas from eastern Europe, once Turkey adopts the EU's common external tariff of 10 per cent. Car imports are already growing at 80 per cent, compared with an increase in domestic production of around 25 per cent.

Foreign investors, too, are expected to have to rethink their strategies in Turkey. For foreign companies already manufacturing in Turkey, it will make sense to source more of their industrial inputs to EC countries. Philip Morris, the US cigarette producer, going one step further, now argues it will be cheaper to import finished products from one of its EC subsidiaries than manufacture at the newly installed \$400m investment near Izmir.

The broader impact is that Turkey will no longer be attractive for companies seeking to get behind high tariff barriers. The trend will be to sectors where Turkish production offers cost-competitiveness, economies of scale and suitable levels of technology. One area that is attracting interest is the food processing and food retail and distribution sectors.

Profile: CEM UZAN

First of the raiders

The black leather furniture and the abstract canvas are the props of tycoons all over the world. Only the insistent drone of the nearby mosque reminds one that this is old Istanbul, not Milan or Manhattan.

The office is that of Mr Cem Uzan, 32, who is Turkey's youngest and brashest businessman, and the country's first corporate raider.

Rumeli Holding, the family's flagship company, today boasts assets worth up to \$1bn, after a programme of acquisitions which has taken the business some by storm. In less than a year, the company has staked a claim to a place among Turkey's top five groups.

Rumeli was active in the early 1980s in building infrastructure for the Libyan oil industry. The family then acquired two main banks - Adabank and Inarbank. With Mr Uzan's return from university to the US, the group ventured into television, exploiting the technology which allowed it to beam in from Germany, thus sidestepping the constitutional ban on private stations.

InterStar was Turkey's first private TV station and now has close to 25 per cent of the sector's advertising revenues.

This year, the Uzans embarked on a spending spree, forking out close to \$500m worth in asset purchases. The government's bid to speed up its privatisation programme provided the richest pickings, the group concentrating on sectors which are least affected by the threat of import competition as Turkey moves to a customs union with the European Union.

The Uzans bought five state cement factories, in the process outbidding a number of foreign cement concerns. The acquisition of power utilities in Adana and Antalya

has given the group a strong presence in the sector ahead of government plans to privatise TEK, the electricity monopoly.

The company is now trying to position itself in telecommunications with moves to set up with Alcatel of France on Turkey's GSM system, the pan-European digital standard which will allow countries across Europe to use the same cellular system. With this backing, Rumeli is well placed for eventual flotation of the telecom arm of PTT, the state post and telephone monopoly.

Mr Uzan likes to put a diplomatic gloss on his swashbuckling business style. "As long as there are mutual benefits, there are alliances. If there are benefits that collide, then there's competition," he says. On other areas, he is less forthcoming. "As a private holding company, we don't publish financial figures. But there is no external borrowing on the series of transactions. It's all being internally financed."

His business methods have not always been transparent. When a Turkish business magazine carried a cover story on the family, Mr Uzan had the entire staff sacked. The story alleged that in 1990 the group orchestrated a run on Inarbank, so as to avoid paying interest on time deposits. The bank had been offering the best rates in the market. Whatever the truth, it was a brilliantly executed exercise. Depositors withdrew their savings and then, seeing how the bank had managed the crisis, piled back in. Inarbank is now one of the best capitalised of the private banks.

Mr Uzan's battles continue. Star is engaged in a war of words - and ratings - with Show, its main rival. Show's owner, the banker, Mr Erol

Aksoy, has been labelled a "son of a Greek" - and in Turkey, that rates as an insult.

If that was not enough for Mr Uzan's lawyers, the group also has ongoing court actions against Mr Asil Nadir, the Turkish Cypriot businessman, and Mr Ahmet Ocal, son of the former president, not to mention with Cumhuriyet, Turkey's only serious newspaper. Mr Nadir says he still owns the land on which Media Print, a business he sold to the Uzans, is located. Gunaydin, Mr Nadir's former newspaper, sought court bankruptcy from its creditors, creating a new title under which it now prints. Cumhuriyet took similar action. Both newspapers owe money to the Uzan banks.

The takeover of the privatised Cukurova electricity utility proved even more controversial. The Uzans paid over \$80m for an 11.25 per cent stake in the Adana-based utility, then solicited shareholders' proxy voting rights to gain control in a move criticised by the Capital Markets Board, the government's watchdog agent. Finally, there was a series of tense negotiations with members of the Sabanci family. Through Akbank, Sabanci owned 5 per cent of the Cukurova stock. "They tested us, we tested them. It was all to a civilised manner. There is no big room for bitterness in business. When you grow, I think it's inevitable you tread on people's toes," says Mr Uzan.

So rapid a diversification of interests might be a cause of concern, but Mr Uzan points out: "All the acquisitions represent monopolies. There is practically no competition now and none in the foreseeable future. In terms of profits, we don't like competition."

John Murray Brown



The Black Sea summit of 1992: participants included Georgia's Eduard Shevardnadze (third from left), Russia's Boris Yeltsin (fifth from left) and Turkey's Süleyman Demirel (fifth from right)

■ BLACK SEA ECONOMIC CO-OPERATION

All trading together

"We've decided to drop the p for project and the z for zone," said the Turkish foreign ministry official, trying to explain why there seemed to be a word missing from the title of the newly formed Black Sea Economic Co-operation.

Agreeing a name will probably turn out to be one of the easier tasks, as officials try to jump-start this fledgling trading body of 35m consumers which Turkey initiated in the wake of the collapse of the Soviet Union.

Today, more than a year after its fanfare inauguration, the world's youngest trading organisation is making steady, if slow, progress. It now boasts a secretariat housed in the grounds of the Dolmabahçe Palace in Istanbul. The building was originally used by the sultans to shelter during the earthquakes that periodically shake the city.

Not an inappropriate choice of site, some might say. For the thrust of the BSEC may be economic and commercial, but as Georgian president Eduard Shevardnadze once warned, the idea could be "still-born" unless the region's various political disputes are resolved. "It's an achievement every time they meet together," says a western official in Ankara. At the first - and so far only - BSEC summit in June 1992, the real prize should have gone to the official who arranged the seating. After all, as many as seven of the 11 members were in open dispute with each other - Romania and Moldova

over the Dnieper, Ukraine and Russia at loggerheads over the future of the Black Sea Fleet; Russia and Georgia over Abkhazia and perhaps the biggest obstacle to regional peace the ongoing conflict in Nagorno Karabakh, between Azerbaijan and Armenia.

The idea, though, is a laudable one - to help boost trade ties between the region's market economies and the former Comecon bloc. As Mr Erhan Ozer of the Turkish foreign ministry puts it: "The driving force, the locomotive, is to be the private sector. You shouldn't put a label on the BSEC. It is *not* a secretariat."

And what progress there has been is largely the result of the energy and vision of Turkey which is footing the bill, at a time when its own budget is under strain.

The BSEC today comprises Turkey, Russia, Bulgaria, Romania, Moldova, Ukraine, Georgia, Armenia, Azerbaijan with latecomers Albania and Greece. Officials say the club is open to new applicants. Poland has observer status and Belarus is considering a similar move. But joining is the easy part. Achieving concrete results is more difficult. Organisationally, the work load is split between an inter-

national secretariat representing national governments and a parliamentary assembly to agree the implementation of legislative changes needed to underpin trade relations.

For Turkish officials, some of the teething problems should have been easier to predict than others. The parliamentary assembly, for example, was meant to comprise 70 mem-

bers; however both Greece and Bulgaria currently choose not to participate. Finding the staff to run the secretariat has been bedevilled by other, more unusual, coincidences. As one official explains: "We did in fact appoint a Russian in charge of financial affairs. But after recent events in Moscow, we have no idea of his fate."

The objective is to improve on the current negligible trade volumes within the region, and co-ordinate policy in such areas as telecommunications, energy and port and road infrastructure development. A separate agreement has been made by Black Sea states to address the environmental issues.

The region's industries, within the communist bloc, were typically organised so as to be dependent on Moscow. Today they need to reforge those links. However, this time relations will be based on mutual agreement and benefit. The long-term hope is that these economies, while competing with each other, may find new areas of co-operation.

Turkey's trade relations with the region have had a scatter-gun quality since the Soviet break-up, but the trend is improving. In the first half of 1993, imports from the former Soviet republics more than doubled to \$1bn while exports increased 60 per cent over the same period in 1992 - Russia and Azerbaijan accounting for the largest share.

Other areas have produced immediate dividends. In Romania, Turkey now has some 3,000 registered companies in Bucharest. Turkish beer is now being bottled to Romania. Coca-Cola's Turkish bottling operation is supplying the Romanian market. Turkish bakers are said to have a virtual monopoly of bread production in the Romanian capital.

Groups such as Penta say counter-trade or barter is an indispensable part of a trader's armoury. To help oil the wheels, some Turkish businesses have sought out partnerships with international counter-trade firms. However, the markets are difficult. Interbank, a small privately owned Istanbul bank, joined up with the Finnish concern Kaukonmarkkinat, hoping to take advantage of its partner's knowledge of trading with the Comecon countries. However, today their joint venture has been liquidated. And as Mr Melih Araz, the head of Interbank, says: "When you get into a dispute on every shipment, why do it?"

But Mr Ozer of the foreign ministry has a different perspective. "You're not dealing here with Africa. Remember all these countries have some basic industry and an educated manpower." In the short term BSEC officials believe the best they can hope to achieve is to address businessmen's day-to-day problems, such as visas, and legal

questions such as protection of investment and the implementation of double taxation codes. Institutionally, there is an urgent need to compile a statistical base. About the only fact on which officials currently agree is that the BSEC's trade with the rest of the world is falling.

Where governments can also play a part to further business activity is in such areas as telecommunications. A fibre optic sub-sea cable is to link Istanbul with Varna, Costanza and Moldova. Turkey's Erimbank is expected to provide financial support. Already officials claim that 40 per cent of the cable traffic has been pre-sold. Separately, agreement has been reached for a \$60m cable, running from Russia and the Ukraine through the Black Sea and eventually to Italy.

The idea has even been mooted to extend the cable to Israel, to facilitate contacts between Israel and Jewish immigrants still in Russia. Georgia, Azerbaijan and Turkey have a fibre optic and radio telephone link. The launch of Turkey's TurkSat satellite next January will allow further collaborations.

In the transport sector too, the BSEC is considering a Greek suggestion to create a corridor connecting all the littoral cities of the Black Sea. Officials say Greece is keen to use its experience in port construction. Romania has also proposed a scheme to upgrade Turkey's Samsun harbour so that freight arriving in the Black Sea via the Danube could be loaded onto trains to reach the Mediterranean across Turkey rather than add to congestion in the Bosphorus.

Next month, the organisation faces perhaps its biggest test when foreign ministers of the 11 member states meet in Sofia to finalise the launch of a trade and development bank. According to a draft of the memorandum to be agreed, the bank is being set up to "finance and promote regional projects... and to assist in encouraging intra-regional trade especially in capital goods."

All member countries have agreed their contributions to the bank's capital structure, although this is not to say they have yet committed the funds. The main sticking point is likely to be the site. Istanbul, Sofia, Bucharest, Costanza and Thessalonika are all bidding to host the bank headquarters.

John Murray Brown

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TÜRK EKONOMİ BANKASI

Like a clapped-out car, Turkey's privatisation programme appears finally to have limped to a halt. The process of state sell-offs was set in motion nearly 10 years ago, but it never really picked up speed. Turkey has raised only \$1.7bn in state sales since Turgut Ozal announced plans to liberalise the economy in the early 1980s. But privatisation has faced formidable opposition from the bureaucrats and politicians with vested interests, to the unions and Social Democrats (now the junior partner in the coalition government) fearing thousands of layoffs across Turkish industry.

The election in June of Mrs Tansu Çiller held out new promises. In a move to speed up privatisation, Mrs Çiller pledged to raise as much in one year as the programme had raised in the past decade. Seen as a moderniser and radical economic reformer, the new prime minister seemed to have enough support and enthusiasm to pull it off. More important, the need for revenues had become urgent.

Mrs Çiller promised to sell

Turkey's biggest state companies, including telecommunications, electricity, oil and the motor and steel industries. The revenues, which the government still says will reach \$1.7bn this year, are needed to ease the burden of the loss-making state sector, to reduce the budget deficit and to dampen down inflation. It is more an economic imperative than a political crusade.

Turkey's 34 state-run industries are expected to lose around \$3bn this year. They employ 600,000 people in more than 400 subsidiaries. Economists estimate that around 60,000 jobs will have to go across state industry if it is to become efficient.

So far this year, \$350m has been raised through block sales, public offerings and flotations on the Istanbul Stock Exchange. But the government has no chance of reaching its 1993 target. Last month, Mrs Çiller's decree enabling the sale of PTT, the national telecommunications company and jewel in the state crown, was ruled unconstitutional. The sale, of up to 49 per cent

Sheila Jones explains why privatisation has limped to a halt

Mrs Çiller stubs her toe

of the company, was expected to raise between \$2bn and \$4bn. The constitutional court in Ankara ruled the sale should have been put to parliament. A lower court then overturned Mrs Çiller's proposals to restructure PTT in preparation for sale. The rulings have thrown the whole programme into doubt.

"Telecoms was the big test case and Mrs Çiller failed," says one western observer. "Not only is there no chance of selling PTT for at least a year, but the government cannot even restructure the company. The ruling means all major projects must be halted, there can be no investment, no transfer of debt, nothing that was part of the move towards privatisation. Mrs Çiller has stubbed her toe on PTT."

Some economic analysts have questioned the wisdom of

Mrs Çiller's heading straight for the big companies: PTT, TEK, the national electricity company, and Petrol Ofisi, Turkey's largest petrol retailer. They argue the government should hold on to the profit-makers to secure revenues over the long term and to reduce the burden on the state.

"Selling winners is not a smart move. Mrs Çiller should cut bureaucracy and impose a wage freeze"

Yet the criticisms and recent setbacks appear to be forcing a change of tack. Mrs Çiller is pressing on with other sales and putting energy into a campaign to answer her critics. Two weeks ago, the government's trade and industry committee passed a further decree, despite the recent court ruling.

by closing the many loss-makers that are too hopeless to be rehabilitated.

"Selling the winners is not a smart move," says one economist in Ankara. "It provides a one-shot input of capital and doesn't cut the overall burden. Mrs Çiller should start by cutting the bureaucracies and imposing a wage freeze."

Mrs Çiller has responded to criticism from the left by promising to use privatisation funds for job creation and redundancy payments. The priority now is to close loss makers and to make provisions for unemployment with job creation programmes and special welfare provision. Revenues from privatisation "are earmarked for industrialisation incentives and job creation," government officials said two weeks ago.

Sales this year have enabled several foreign companies to build controlling stakes in Turkish subsidiaries, and to position themselves in the market for the larger sales. Northern Telecom of Canada paid \$27.5m for a further 30 per cent in Netas, the telephone and switch manufacturer, taking its holding to 51 per cent. Alcatel of France built its share of Teletas, the second

biggest telecoms group, to 65 per cent, buying 18 per cent of the company for \$21m.

Other stakes up for sale and attracting foreign interest include Tofas, the Fiat car assembly subsidiary. The government has decided to sell its 21.1 per cent stake and its 18.5 per cent in the company's distributing arm, Tofas Oto, in an initial public offering on international markets, along with private placements in the US and Europe.

Private domestic companies have bought up state competitors. Earlier this year, Rumeli Cement bought out three state cement makers for a total of \$135m, and Eremsan paid \$31m for another small cement company. Rumeli Electric paid \$114m for minority holdings in two electricity utilities.

Such sales are small beer against the larger sell-offs stalled by the constitutional court. There are many companies still to come to market. Among the large companies planned for sale in the next few years are Petkim, the petrochemicals company, which the govern-

ment says needs substantial investment, and the Turban hotel chain, which operates a tourist agency, four marinas, and 19 hotels and holiday villages.

Such companies might well be an enticing prospect for an overseas investor, and the need for foreign money might yet strengthen Mrs Çiller's hand.

Much will depend on municipal elections in March, and the prime minister's future relationship with the Social Democrats, on whom she is relying to mediate with the unions.

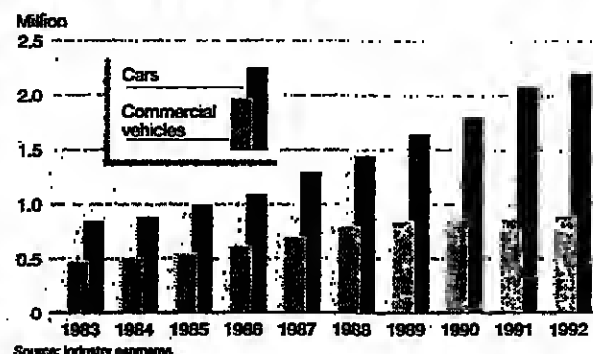
Mrs Çiller has won few friends in her attempts to sell Turkey so far. She is accused of naivety, even arrogance, in trying to push sales through in the face of an entrenched bureaucracy and wider opposition.

As one western diplomat says: "Whichever way she does it, she'll get political flak: from the unions, from her coalition partners, from the courts. It's impossible to make rational policies in such circumstances. Mrs Çiller is up against bureaucratic gridlock and parliamentary constipation."

THE PETROL MARKET

Jostling for the best spots

Cars/commercial vehicles



rising household incomes and a growing population. Total petroleum product sales, including transport fuel, lubricants and heavy fuel oils, rose 8 per cent to 16.8m tonnes last year, of which about 10m tonnes were sold at the petrol pumps.

Growth in the number of retail outlets - about 7,000 - has slowed in recent years. The oil majors are now waiting to pounce on Petrol Ofisi's network of 4,300 outlets when the company is privatised. The sale was expected to take place in the next year, though the timing is now unclear because of recent setbacks in the government's privatisation programme.

Petrol Ofisi dominates in rural areas, and it still has a large share of sales in the cities. In addition to its general sales, the company supplies fuels and lubricants to the police, military and the public transport system. Last year, Ofisi made pre-tax profits of \$100m, well below its potential, according to industry analysts,

and little more than the rate of inflation. Turnover rose 61 per cent to \$2bn and sales so far this year are up by about the same amount.

The government, which wants to attract foreign investment, plans to sell at least 15 per cent of the company, possibly selling a strategic stake to a single buyer. Industry analysts say the nature of the sector militates against the sale of only a small portion of the government's 96.1 per cent holding, partly because it would leave control with the government, but also because the best of the company could be sold at the outset: "Any buyer would want the best of the network, and once that has gone, what is there left to sell?"

A foreign buyer would want to restructure, closing thousands of low-volume outlets, laying off workers and operating at international prices. All

three issues are politically sensitive for the government, which may want to retain a controlling stake.

Petrol Ofisi employs more than 7,000 people. "I don't know where they are or what they are doing," says one industry observer. "Virtually all the company's retail outlets are run as dealerships, so they aren't there. Staff could be cut by more than half and it would be much more efficient."

Mr Mustafa Korel Aytac, Ofisi's general manager, says that the company would like to cut staff to around 3,000. But it is a slow process, and while staff numbers have dropped from 8,133 in 1990 to 7,144 this year, the company's wage bill is still rising faster than inflation.

Another factor in privatisation is whether or not the government sells Ofisi in a package with Tüpraş, the loss-making refining company which has about 85 per cent of the refining market.

Mobil suggests a package sale could be attractive in a fully-liberalised market, with

Tüpraş split into geographical sections, each containing a refinery integrated with marketing facilities. A company such as BP, which is more focused on retailing, would probably prefer Petrol Ofisi on its own. The company is less capital intensive than Tüpraş, and virtually ready to take over. Any buyer, though, would need to secure access to refining if Ofisi was sold alone. Some of the multinationals' refining needs are met by the Atas refinery in Mersin, operated by Mobil, Shell, BP and Turkpetrol. Atas refines about 15 per cent of the market.

But for the multinationals, the central point is whether or not the market is fully liberalised. They complain that the contest is uneven because pump prices are kept artificially low. The government, keen to control inflation, has restricted the price at which petrol leaves the refinery. Even when crude prices are rising on world markets, Tüpraş has not been allowed to raise refinery rates. This enables Petrol Ofisi to discount at the pumps; the multinationals have to match the price cut or risk losing share.

The problem is compounded by the structure of pump prices. The state takes 65 per cent in levies and taxes and 24

per cent currently goes to the refinery. This leaves the multinationals tiny room for manoeuvre, particularly when world crude prices are rising. They say Tüpraş cushions Petrol Ofisi when prices rise, and that it absorbs some state levies.

Thus, discounting at the pumps eats directly into the multinationals' margins. Some operators say their margins could be increased by 0.2 per cent a day if there were no price controls.

Petrol in Turkey is the cheapest in Europe, according to industry analysts. Premium sells at around 65 cents a litre. Diesel, which accounts for 65 per cent of the retail market, sells at around 43.5 cents a litre. Unleaded, at 64.5 cents, takes barely 1 per cent of sales.

With economic growth estimated at between 5 and 10 per cent annually in the next few years, Turkey's petrol market has the highest growth potential in Europe, according to industry analysts, but the market has to change. "Profit margins are still substantially lower than in western Europe, but that will change as the market is deregulated. It won't produce a pot of gold, but there is great potential."

Sheila Jones



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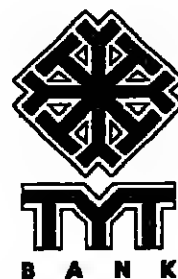
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BELGIAN BANKING AND FINANCE

Thursday November 25 1993

Belgium has long been home to the European Community's political institutions, but do the country's many financial institutions have the clout to survive and prosper in the competitive single market which 'Brussels' has created? Andrew Hill reports

An austerity route agreed

Since Belgium took over the presidency of the European Union in July, the country has often seemed like a storm-tossed miniature replica of the 12-nation community over which it presides until the end of next month.

Belgian industry has been on the rock of recession, its sufferings exacerbated by fading competitiveness. Strikes have disrupted daily life and perceived weaknesses in the country's public finances - notably looming budget and social security deficits - have made the Belgian franc, once considered a surrogate for the D-Mark, a prey to fierce speculation on the bond and foreign exchange markets.

Sometimes the authorities' only defence appears to have been to lash the currency to the D-Mark and hope for the squalls to blow out. But at a time when other European currencies have cut free, and apparently profited from their liberty, that policy has itself been blamed for aggravating some of the country's problems.

Early on the morning of November 17, however, Belgium's coalition of Christian Democrats and socialists found what should prove to be a more constructive way out of their difficulties. After weeks of wrangling, and in spite of the abandonment of the original three-way talks with unions and employers, ministers finally agreed an austerity plan - a series of measures to limit social spending and wage increases, improve competitiveness and tackle unemployment. It is easily the most far-reaching recovery programme in Belgium since the second world war.

The plan - inevitably compared to the European Commission's planned white paper on competitiveness, growth and employment, due to be presented at next month's Brussels summit of EU leaders - had an instant and dramatic impact on the financial markets. The Belgian central bank responded immediately with a bigger than expected cut in leading interest rates; the Bel-20 index of leading Belgian stocks rose sharply; the yield

gap between Belgian franc and D-Mark dominated bonds narrowed; the franc itself strengthened.

The Belgian coalition - which constructed the plan in the teeth of actual and threatened strikes action - will be justifiably pleased with this reaction. But it is not clear whether the short-term market rally can be sustained and the risk of continuing industrial action by unions seen off.

What, then, will be the medium-term impact on Belgium's public and private finances?

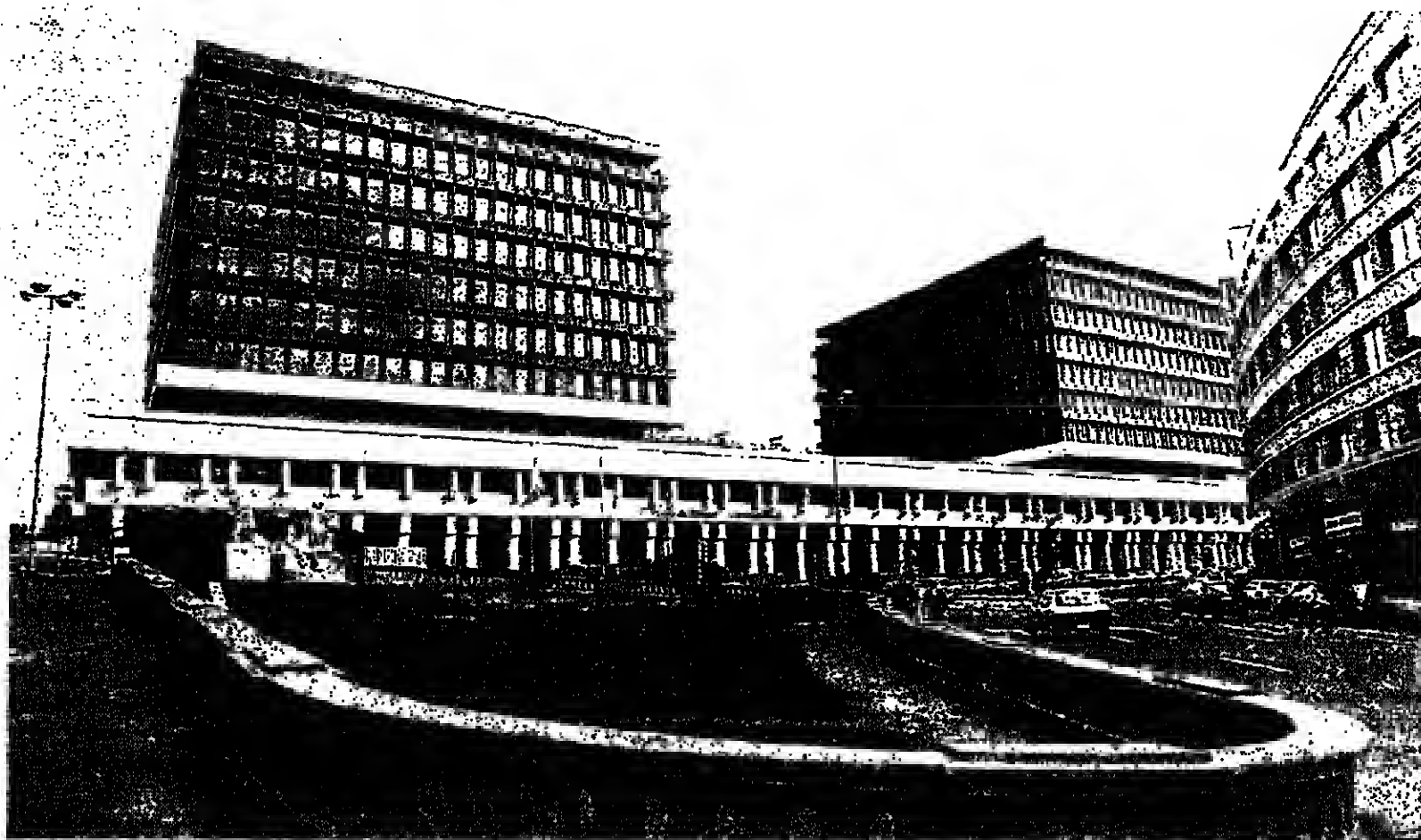
Belgian public finances are overshadowed by debt which stands at more than 120 per cent of gross domestic product. Gradual cuts in interest rates will fit in well with the government's existing strategy to reduce the cost of its borrowing by refinancing its debt.

Cuts of about BF75bn in spending on health benefits, family allowances and pensions will also help restrict the overall rise in borrowing.

The austerity plan will also strengthen Belgium's chances of meeting the goals set out in its programme for convergence with other EU economies. The government's own forecast of how Belgium will meet the Maastricht treaty target of cutting its budget deficit from 6.9 to 3 per cent of GDP by 1996 depends on a delicate balance between GDP growth and falling interest rates. The plan should improve both sides.

The impact on private sector savings is more difficult to predict. Included in the plan - partly as a way of offsetting the edginess of socialist coalition partners about cuts in social spending - are revenue-raising measures which could penalise certain investments. For example, the government plans to increase withholding tax on interest income from 10.3 per cent to 13.4 per cent, while withholding tax on dividends should come down from 25 per cent to 13.4 per cent.

The question of withholding tax is particularly sensitive for Belgium's financial sector, which in the past has lost savings business to neighbouring Luxembourg with its limited taxes and banking secrecy laws. One of the original



The Générale de Banque, in the centre of Brussels, is one of Belgium's 'big three' private commercial banks - the others are Banque Bruxelles Lambert (BBL) and Kredietbank. Tony Andrews

recommendations of the experts who laid the groundwork for the austerity plan was that Belgium should find a way to accelerate plans for European harmonisation of withholding tax, but that seems no more than a long-term objective.

A more reliable, and quicker way for Belgian banks to overcome the attractions of the Grand Duchy (most of them have profitable Luxembourg subsidiaries too) is to find new means of persuading the wealthy ordinary Belgian to invest at home.

"Ordinary" Belgian bank customers are not small fry. A recent survey showed that with average savings of BF600,000, Belgians lagged behind only the inhabitants of Switzerland, Japan and Singapore as savers. Separate surveys show that at the end of 1991, Belgian households topped the world league with net household savings taking up 17 per cent of disposable income.

Belgians are also extremely well off for banking branches, and daily banking transactions which is only just being matched by many other European countries. A nationwide system of cash and debit cards - many linked to the Eurocheque network - means that Belgians can pay for goods at most retail outlets with just a card and their personal code number. In some cases, most notably at petrol stations, the outlet does not even have to be manned.

Paradoxically, however, although the big banks provide a blanket service, with branches in every village, their bid to persuade cautious customers to branch out into investments more complex than low-interest savings accounts is relatively recent.

Liberalisation and increasing competition - both at an EU and national level - is beginning to open up the market and all the main participants in Belgium's private financial sector are trying to get involved.

For example, the Brussels stock exchange is trying to promote the attractions of ordinary shares - likely to be helped by the proposed reduction in withholding tax on dividends - while listing new products such as warrants.

Belfox, the growing futures and options exchange, has a nationwide roadshow aimed at persuading more sophisticated Belgian investors to switch some savings out of low-interest accounts into stock options.

Banks, meanwhile, have expanded their range of high-interest accounts, and offer a widening range of Sicavs, a

form of unit trust for shares, bonds or currency. They are also rapidly branching out into the potentially lucrative field of bancassurance. By trimming the state's comparatively generous pension benefits, the austerity plan may help accelerate that process by persuading more Belgians that it is worth investing in simple life insurance products, sold through the dense banking network.

As Mr Valère Croes, a director of Fortis, the Belgian-Dutch financial services group, says: "Total saving is as high or even higher than in other countries, but the share of life insurance isn't high enough."

This is where analysts expect most changes to take place. Fortis recently stole a march on its competitors by buying half of CIGER-ASLK, a network of savings and insurance branches, from the government, in the first stage of a modest BF85m four-year privatisation programme.

But both insurers and bankers say existing competition between companies already established on the Belgian market will make it difficult for foreign financial institutions to set up from scratch. The privatisation programme - focused at the moment on state-owned credit institutions - is one way into Belgian financial services for outsiders.

The rapid evolution of financial services in Belgium is unlikely to slacken off, even if last week's austerity plan is only partially implemented. But if the Belgian government does indeed manage to turn what looked like becoming a winter of discontent into a glorious summer of economic revival, Belgian banking and finance can only benefit.

Interim Results

On course for a twofold increase in profits

In spite of the continuing poor economic climate, the first six months of the current financial year confirm the expected return of the bank to a situation which places it firmly back on the road of its previous development.

Non-Consolidated Balance-Sheet Figures

Amidst a modest increase in the balance-sheet total (+4.41%), customers' deposits inclusive of certificates of deposit, increased considerably (+7.86%).

Despite the difficulties confronting the economy, the growth in customers' loans (+4.43%) was satisfactory, with greater attention being paid to quality rather than the size of the portfolio, for obvious reasons.

The increase in loans to the Belgian public sector was particularly significant (+21.27%).

Final mention should be made of the continuing reinforcement of the Bank's shareholders' funds. Within the increase of BEF 2,166 million (up by 3.59% from BEF 60,254 million to BEF 62,420 million) recorded by shareholders' funds in the strict sense of the term, much of this (BEF 1,649 million) is attributable to the exercise of the optional stock dividend, chosen by 93.3% of shareholders, whilst the remainder, BEF 517 million, results from the allocation to reserves as decided by the Annual General Meeting of Shareholders held on April 28, 1993. Inclusive of subordinated loans, total shareholders' funds and assimilated items increased from BEF 95,483 million to BEF 96,733 million, an increase of 1.31%.

Non-Consolidated Results

Increasing by 8.46%, interest income progressed significantly. The increase in sundry income results mainly from the capital gains earned on public sector bonds and from the considerable increase in other forms of financial income.

Increasing by 9.54%, operating costs reflected a charge of BEF 1,373.8 million made to cover the payment of holiday pay to personnel, associated social security payments and the effect caused by the change in the closing date of the social year. Ignoring these non-recurring items, the increase in operating costs was no greater than 1.69%.

With regard to depreciation, write downs in value and provisions, the increase in depreciation

BALANCE-SHEET FIGURES

(in BEF billions)	31/12/92	30/06/93	Change	30/06/93
Balance-sheet total	2,204.4	2,301.6	+ 4.41%	2,615.3
Customers' deposits	1,125.5	1,214.0	+ 7.86%	1,425.8
Deposits made by credit institutions	847.1	873.0	+ 3.06%	948.4
Customers' loans	853.0	890.8	+ 4.43%	990.5
Loans to the public sector	405.8	492.1	+ 21.27%	569.5
Loans to credit institutions	772.0	755.0	- 2.20%	895.2
Shareholders' funds	60.3	62.4	+ 3.59%	63.9

PROFIT AND LOSS ACCOUNT

(in BEF millions)	1991-92	first half 1993	Change	first half 1993
Net interest income	17,302.2	18,765.9	+ 8.46%	21,883.4
+ Sundry income	+ 7,052.9	+ 10,995.6	+ 55.90%	+ 14,641.2
- Overheads - recurrent	- 17,524.4	- 17,821.6	+ 1.69%	-
- exceptional	-	- 1,373.8	-	-
- total	- 17,524.4	- 19,195.4	+ 9.54%	- 22,576.3
= Operating profit	= 6,830.7	= 10,566.1	+ 54.69%	= 13,948.3
- Depreciation, write downs in value and provisions	-	-	-	-
- on tangible fixed assets	1,407.2	1,609.5	+ 14.38%	3,182.6
- on loans and financial investments	6,054.2	4,751.5	- 21.52%	6,199.6
- other	-	1,018.6	-	1,756.3
- total	- 7,461.4	- 7,379.6	- 1.10%	- 11,138.5
+ Write-back of amounts written off	+ 1,539.3	+ 618.9	- 59.79%	+ 2,371.3
+ Other exceptional income/charges	+ 59.7	+ 99.3	-	+ 303.5
= Profit before taxes	= 968.3	= 3,706.1	+ 282.74%	= 4,877.6
Net profit	1,225.6	2,457.3	+ 100.50%	3,052.6

1. New regulations applicable to the annual accounts of credit institutions, in force since January 1, 1993, have brought important changes to certain items therein. Consequently non-consolidated figures for the 1991-1992 financial year have been adapted in order to allow comparison with figures for the current financial year.

2. Given the exceptional fifteen month period covered by the 1991-1992 financial year, figures for the interim period of that year have been stated on the basis of half of twelve fifteenths of the year recorded at the close of the last financial year.

3. Not meaningful.

4. Consolidated figures comply with the dispositions laid down by the Royal Decree of September 23, 1992, to allow for comparison, measures have been taken to publish related figures for the previous year at the close of the current financial year.

of fixed assets (+14.38%) was particularly due to the extension of the Bank's head office; write downs in the value of loans and investments declined by 21.52%, even though, in the current economic climate, the Bank continues to favour a policy of extreme prudence. Other items include, for the most part, provisions made, in accordance with recent legal requirements, to cover additional pension payments made to members of staff who chose early retirement.

Taking into account corporation tax, net profit amounted to BEF 2,457.3 million, compared with BEF 1,225.6 million, an increase of 100.50%.

Consolidated Balance-Sheet Figures

Shareholders' funds in the strict sense of the term amounted to BEF 63.9 billion; inclusive of subordinated loans (BEF 38.9 billion),

shareholders' funds and assimilated items amounted to BEF 102.8 billion. The solvency or Cooke ratio, at the end of the period came to 8.40%, compared with 8.27% as at 31.12.92.

Consolidated Results

Net consolidated profit amounted to BEF 3,110.9 million. After deduction of minority interests amounting to BEF 58.3 million, Group net profit came to BEF 3,052.6 million, an increase of 109.38% compared with BEF 1,457.9 million, calculated as six fifteenths of net profit recorded as at December 31, 1992.

Foreign network

The recovery plan adopted by the Executive Committee to turn around the performance of certain foreign offices is achieving its objectives.

Particular mention should be made of the performance of BBL Switzerland, the recovery of New

York and the gradual improvement of London; BBL France has returned to an operating profit; Crédit Européen continues, as in previous years, with an overall expansion yielding remarkable results.

Save unforeseen events, a twofold increase in net profit, fixed by the Bank as the main objective for the current financial year, is attainable.



The insurance market

Push comes to shove

Nudged and prodded by new European Community rules, the Belgian insurance market is edging into the harsh light of liberalisation.

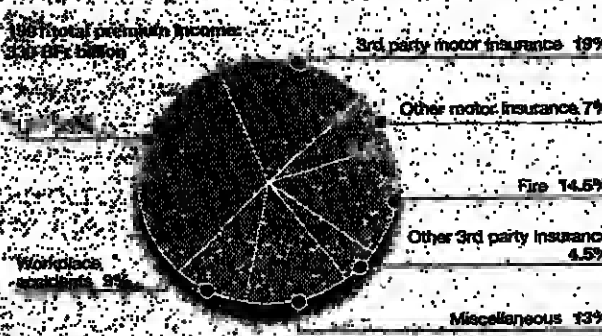
The transformation is likely to be dramatic. Until recently, the country's insurance sector authorities had to vet tariffs and conditions before a new policy could be launched, limiting insurers' creativity. Unit-linked life insurance policies were not allowed.

Motor insurance tariffs were among the most rigid in Europe: until last year a 22-year-old boy-racer burning up the back streets of Brussels' roughest quartier was subject to roughly the same tariffs and conditions as a 53-year-old spinster poodling round the picturesque Ardennes.

With the EC already framing legislation to liberalise the insurance market, a "round table" of all those involved in the Belgian insurance market was convened in 1990, with the objective of laying the foundation for deregulation in Belgium. The result has been a pile of technical and fiscal reforms, coming on top of the EC liberalisation programme which comes into full effect in the middle of next year.

There are still teething problems. The non-life sector is barely profitable, and most large Belgian insurers agree that the Belgian authorities will have to allow greater increases in fire and car insurance premiums. At the same time, the right to discriminate between car insurance policyholders has created an underclass of high-risk drivers who are almost uninsurable.

Belgian insurance market



As a result of years of rigid controls, the insurance market is strangely underdeveloped compared with the rest of northern Europe. Whether expressed in terms of premium per inhabitant, or as a share of gross national product, the Belgian insurance sector is less than half as important as the British market, and lags behind its French, Dutch and German counterparts.

Belgium's extensive system of social security and pensions also means that the market for life insurance has not developed as quickly. Life business represents only a third of the BEF330m of premium income in Belgium, compared with 55 per cent in the Netherlands. Insurance brokers - the principal distribution network in Belgium - have tended to concentrate on the sale of non-life policies.

But although Belgium is a small country, it is also a comparatively wealthy one. Belgians are among the world's biggest savers (up there with

the Japanese and the Swiss). "One can take a pessimistic or an optimistic view," says Mr Wautier Robyns of the UPEA, trade association of the Belgian insurance industry. "There's not a lot of insurance awareness among the Belgian public - but compared with surrounding countries there's plenty of room for development of the Belgian market."

That does not necessarily mean that Belgium is waiting to be conquered by powerful outsiders. In fact, other than insurance companies linked to trade unions or political parties, most of the 250 or so insurers operating in Belgium are either subsidiaries of, or already have strong links with groups outside the country.

Belgium's two largest quoted insurers are AG and Royale Belge. AG is part of the Fortis joint venture with Amer, the Dutch financial services group.

Continued on Page 3

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BELGIAN BANKING AND FINANCE 3

David Gardner investigates the banking sector

Not so cosy as it was

The advent of Europe's single market, together with domestic reforms to adjust to it, have forced Belgium's traditionally cosy banking system to take a cold look at itself. But the changes set in train are "creeping and discreet", as Mr Georges Martin, head of the research department at the Association Belge des Banques (ABB), puts it.

The trend is not so much to seek the protection and weight of mergers and alliances as to look ruthlessly at items such as costs, asset and liability management, new sources of income, pricing, and improved risk management and provision.

Such alliances as are beginning to emerge - or be mooted - in response to competition between the biggest players. They normally take the form of setting up *Banquassurances* or *Assurances* groups, selling banking and insurance products. Almost no one in the sector foresees large-scale mergers.

The larger players are too like each other, attempting to provide a universal banking service strongly rooted in the Belgian (or at most the supra-regional) market, encompassing the Benelux countries and bits of France and Germany.

The entry of more aggressive outsiders such as Credit Lyonnais, offering higher interest rates, has shaken some of the complacency. But there is little sign of any significant restructuring of the sector as a result.

Competition in the Belgian banking sector is not new, but it is growing. There are now 90 banks - only 23 of them with a majority Belgian interest - as well as a clutch of powerful private savings banks and public credit institutions providing the most dense branch network in Europe.

Top of the league in consolidated balance sheet terms are the Big Three private commercial banks: Générale de Banque, Banque Bruxelles Lambert (BBL), and Kredietbank. These are closely trailed by Crédit Communal, jointly owned by all Belgium's provinces and municipalities, and ASLK-CGER, the state-owned savings bank which has been recently half privatised.

Until the end of the 1980s, banks in Belgium could rely on earning high bond yields from a government already well-lauded into a serious public indebtedness problem (see article on bonds), while paying out relatively low interest on a very high stock of private savings, big chunks of which were regulated.

Belgium's savings profile was and remains an important part of the rationale behind maintaining a branch network which would raise boardroom eyebrows elsewhere.

International comparison of household savings rates % in 1991

	1990	1985	1980	1975	1970
Belgium	16.2	11.5	14.4	15.1	17.0
Italy	21.6	18.0	14.4	16.1	15.6
Japan	17.9	15.6	14.2	14.1	14.8
Austria	10.4	8.3	12.5	13.3	12.8
Germany	13.0	11.4	12.5	12.4	12.6
France	17.6	14.0	11.5	12.2	12.6
Switzerland	3.3	5.7	11.2	12.0	12.5
UK	13.3	10.6	7.1	8.3	8
US	8.1	6.6	4.7	4.5	4.9
Sweden	4.8	1.7	3.8	1.2	1.9
Netherlands	0.7	2.0	4.2	6.5	0.6

Source: Belgian Bankers Association. (1) Net household savings as a percentage of their disposable income (2) Gross household savings

World rankings of Belgian credit institutions

Institution	Consolidated balance sheet local	Capital & reserves	Net pre-tax profits
Générale de Banque	73	100	84
BBL Bank Brussels Lambert	50	146	189
Kredietbank	97	129	115
Ganeshelredet-Credit Communal	96	220	213
ASLK-CGER Bank	108	192	322
CERA Savings Bank	213	190	374
CERA Savings Bank	245	301	554
National Industrial Credit Co	269	793	793
Anyep Savings Bank	451	437	587
Ippa Bank	479	786	747

Source: The Banker, July 1992; the Top 1,000, worldwide

At the end of 1991, net household savings in Belgium as a portion of disposable income was 17 per cent. This is a ratio even higher than 14.6 per cent in Japan, 13.6 per cent in Germany, 9.3 per cent (for gross household savings) in the UK, 4.9 per cent in the US.

Between a quarter and a third of these deposits, depending on the type of credit institution, were remunerated at a low, fixed, net interest rate. These accounts, originally designed to fund low-cost public housing, were attractive to savers because in exchange they were exempted from a stiff withholding tax.

The number of branches climbed to nearly 9,000, raising the number of accounts per 100 inhabitants from 26.5 in 1985 to 97.9 in 1991. Belgium, not a sparsely populated country, now has 1.4 branches for every 1,000 inhabitants, against, say, one for every 1,800 people in the Netherlands or one for every 1,300 people in the UK.

Belgian bankers, in the main, resist suggestions that this is over-branching, much less overstaffing. Each branch employs between a third and a quarter of the staff numbers common in Europe, and banks have invested heavily in automation. Since 1990, total staff costs have nearly doubled - but ABB figures show that net profit in the sector as a whole has more than quadrupled. Increased branching has gone hand in hand with increased competition.

One leading economist in the sector underlines the point that judgment of risk is more

accurate at this grass-roots level, and that, for the Big Three as much as the savings banks, a strong domestic base is essential. Mr Eric Polleffeit, head of Kredietbank's information department, says: "We want to be a universal bank in the Belgian market, and to do that you have to present in every village."

Nevertheless, deregulation at European and domestic level is forcing changes. The government's 1990 decision to slash withholding tax from 25 to 10 per cent has sucked savings back into Belgium from tax havens such as neighbouring Luxembourg, but it has also sharply reduced the pool of cheap regulated deposits. As a portion of all deposits, the latter have fallen from 24.3 per cent in 1980 to 13.3 per cent in 1992 for the banks, and from 46 per cent to 20.5 per cent over the same period for private savings banks.

At the same time as this big shift from low to high-yielding deposits, the government is aggressively repricing large chunks of its debt, moving it into longer-term bonds, and eating into bank margins. Most banks are now expecting to get about a tenth of their earnings from financing the government, against nearly a third barely five years ago.

Interest margins overall have declined sharply, from an average 3.3 per cent in 1970 to 1.4 per cent in 1992. This goes well beyond similar slides across the European Union, where the average remains 2.1 per cent.

As a result, there is new

emphasis on cutting costs, on profitability, and on boosting capital ratios to ease access to cheaper working funds. Costs across the sector have dropped from 76 per cent of net earnings in 1980 to 66 per cent last year. Despite the recession, all three big banks reported double digit increases in consolidated net profits for the first half of this year.

Most banks have opted to consolidate a strong domestic customer base (where margins are higher, partly because of generalised repricing of credit and new charges on customers), and to generate more non-retail income in areas opened up by deregulation (although margins are keener).

Most institutions are developing a sizeable fee earning base in equity dealing (some 20 brokers are now linked to banks); in foreign exchange transactions; in swaps and futures; in new products like *Scava* (a kind of unit trust); and most visibly in insurance.

CGER, for example, surprised the market by consolidating its *banquassurances* strategy through a link-up with Fortis, the Dutch-Belgian financial services group. It has bought half the savings group's equity.

The move contrasts with unaccompanied attempts by bigger players to establish supra-regional financial services groups. Générale de Banque's proposed link up with Amro of the Netherlands, announced in 1990, while BBL abandoned advanced discussions last year to ally with Internationale Nederlanden Groep (ING), the Dutch banking and insurance company.

BBL has since opted to pursue insurance links with Royale Belge de Belgique, and Winterthur of Switzerland. Kredietbank has its own insurance division.

In the rest of the sector, the government's privatisation programme could produce new partnerships, on the CGER-Fortis model. Mr Martin of ABB argues: "What we've seen with CGER could happen with others, drawing in not only the Belgian private sector, but foreign (credit and insurance) institutions too."

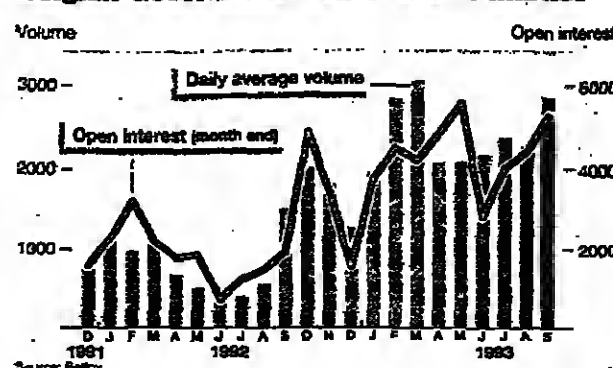
banking and insurance branches, earlier this year. With CGER-ASLK already claiming 14 per cent of the Belgian market in personal life insurance, and Fortis adding a further 12 per cent, Mr Lippens believes the other banks and insurers will have difficulty catching up.

Mr Gerard, unsurprisingly, begs to differ. His company has joined Winterthur, the Swiss insurance group, in a *banquassurances* deal with Banque Bruxelles Lambert, one of Belgium's three largest banks. He says the alliance is at an early stage, but foresees a healthy future. He also believes there may be short-term problems marrying the different cultures, wages and personnel of Fortis and CGER-ASLK, although in the medium term it is clear he sees Fortis as a tough competitor in *banquassurances*.

As the UPEA points out, Europe's single market initiative has "really shaken up the Belgian market". The next few years will reveal how many home-grown insurers are strong enough to survive.

Andrew Hill

Belgian Government Bond futures market



Bonds took a bashing - but debt is becoming manageable

'Franc fort' may pay off after all

member states seeking to create a single currency by the end of the century. Annual interest payments to service the debt eat up an unsustainable 11 per cent of GDP.

Thus, even though the "primary" budget balance (exclusive of interest payments) was turned round, over the decade 1981 to 1991, from a deficit of 5.5 per cent of GDP to a surplus of 4.1 per cent, the actual deficit, after the interest bill, was reduced from 13.3 per cent to only 6.3 per cent - again, double the Maastricht criterion

out that in the depths of such a recession its primary surplus was actually rising, heading on latest Finance Ministry estimates for 4.5 per cent this year.

"The feeling was, it's as good as the D-mark, except you get a premium," summarises Mr Peter Praet, chief economist at Belgium's leading bank, Générale de Banque.

But after the de facto implosion of the ERM this August, sentiment changed. Investors in government bonds, particularly from outside Belgium, "wondered how they could buy

of 3 per cent. As long as the deficit was moving in the right direction, however, Belgium's partners and the markets perceived the debt stock as a hangover.

In January this year, for instance, the yield on 10-year Belgian benchmark bonds narrowed to 40 basis points against their German equivalent, compared to 120 basis points in August 1992, just before the first ERM crisis.

The 1992 budget deficit had climbed to BFR45bn, or 6.9 per cent of GDP. But throughout Europe, as recession deepened, unemployment costs rose and the tax take shrank, deficits were rising.

Belgium could justly point

able. Speculation flared that Luxembourg was stealing itself to break the link with Belgium.

But despite the dent to the credibility of Belgian bonds, the market was surprisingly resilient. "It was tested in very difficult conditions and it proved to be liquid," Mr Praet emphasises.

But nevertheless, the need to get a stabilisation package became all important, and Mr Dehaene, the Belgian prime minister, persevered even after the trade unions walked out of what was initially conceived as a tripartite pact between government, business and the unions.

The precise financial details remain sketchy as this survey goes to press, but the Government appears to have found savings of BFR70bn on the social security budget - the estimated deficit for next year. And these savings will be recurrent through changes, for example, in eligibility for child allowances.

On the eve of the crunch cabinet meeting to finalise the package, the risk premium offered by Belgium 10-year bonds over German equivalents was 109 basis points; within hours of markets opening the yield differential had narrowed to 90 basis points.

The package, moreover, reinforces the government's already well-advanced strategy of repricing its debt.

According to estimates prepared by Générale de Banque, this could save the Treasury the equivalent of 2 per cent of GDP a year. Some BFR2,000bn of short term debt, which is currently attracting implicit rates of just over 7.3 per cent, is being moved to longer maturities.

More debt falling due between next year and 1996 will be similarly refinanced.

Restored credibility in the bond market could win the government more leverage and yield further savings. That will be in addition to - as seems likely - about 2 per cent of GDP savings from the stabilisation package agreed earlier this month.

It will be well into the next century before Belgian debt gets near the Maastricht debt stock criteria. But the emerging longer-term and cheaper profile of the debt will make it far easier to manage any intervening shocks.

David Gardner

The EU push comes to shove

Continued from Page 1

Royale Belge is controlled by UAP, the French insurer. Both AG and Royale Belge are gearing up for the single market of liberalisation. Mr Jean-Pierre Gerard, chief executive of Royale Belge, says the UAP connection means that his company will be "better protected" than many others once the single market in insurance is declared open next summer.

Mr Maurice Lippens, chairman and chief executive of AG, believes that competition is already so fierce that it will be very difficult for new companies to set up. Many smaller

units of large non-Belgian companies have already been forced to pull out of the Belgian market, he points out. "It's all very well to have a nice map of the world and put flags all over it, but it just doesn't work, unless you have a substantial percentage of the market and a back-up office."

But that does not mean that the large insurers are resting on their laurels. Instead they are in a fierce battle for the life business and their main weapon is *banquassurances*. Most of the Belgian banks now have some links with the insurance sector. The principle is simple: to sell basic "stock" insurance products through ordinary

branches. Fire and life insurance, for example, can be linked to more traditional banking products, such as mortgages. The aim is to unlock some of those famous Belgian savings.

"For the private consumer, going into a bank branch is part of daily life, but going to put a question to an insurance broker is less common," points out Mr Robyns of the UPEA.

The Belgian consumers' association is backing the initiative, and opposes plans for unnecessarily restrictive legislation which might oblige bank staff to become qualified insurance intermediaries. The association believes that would impose extra costs, deter the banks from entering the market, and drive customers back to the brokers, whose expertise in selling life products has been much criticised.

Fortis claims to have won itself a head start in this potentially lucrative market by buying from the government a 50 per cent stake in CGER-ASLK, a network of

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BELGIAN BANKING AND FINANCE 4

Andrew Hill reports on the progress of Belgium's modest privatisation programme

Facts prove stronger than ideology

Orderly, 1993, was an important year for the Belgian government. It was the first time that the first piece of the privatisation programme was put in place - the sale of 100 per cent of CGER-ASLK, a network of insurance and financial services.

Although the 1993-1994 period was a difficult one for the government, the privatisation programme was not so much its saviour as the speed with which it was implemented. The ideological arguments were postponed once the facts of the matter were clear.

The privatisation programme is modest, mainly because Belgium did not have a large public sector. There is still a long way to go before the government can sell off before it runs into the political complexities of privatisation and the services - sensitive areas which even the British government has not touched.

The privatisation programme took place in Belgium only six months ago. The sale of the state-owned telecommunications company, the Belgian Telecom, was the first step. The government is now looking at the possibility of selling the state-owned bank, the Banque Paribas.

Belgium at a total of BF318bn. As Petercam's directors now freely admit, injecting some round figures into the debate seemed to give energy to a government which had to raise money fast to curb its growing budget deficit.

"Before that, people had only philosophical debate about it, and we said: let's take philosophy out and find facts," says Mr Alain Camu, a director of Petercam and Hill Samuel.

Nonetheless, the speed with which the government moved was remarkable. This was no hard-line Thatcherite coalition but an uneasy alliance of Christian Democrats and socialists - not the world's most enthusiastic privatisers. But by Christmas 1992, the government had rewarded Petercam with a mandate to organise the sale of a "significant" part of CGER-ASLK.

A hasty "memorandum" on the group was prepared and sold to five potential buyers in April. By the beginning of October, the deal was signed.

The only ideological skirmish was fought last year when Mr Jean-Luc Dehaene, the Belgian prime minister,

upset his socialist coalition partners by indicating that there was nothing to stop potential buyers purchasing more than 50 per cent in state enterprises. In the end, the legislation governing CGER-ASLK was amended with hardly a murmur from the socialists in September this year, to allow the sale of a majority stake. Fortis now has an option to increase its holding to 50

Floating CGER-ASLK, or a part of it, might have given new energy to the stock market, but the Belgian government was constrained by its tight timetable and tough targets for privatisation proceeds

per cent from January 1, 1995, and the state holding company can, if it so wishes, sell a further 9.8 per cent to the Dutch-Belgian venture.

Mr Maurice Lippens, chairman of Fortis, says the idea of buying the state-owned banking and insurance group had not occurred to his company before the beginning of the year, simply because it was felt that CGER-ASLK was not for sale.

It was at a lunch in January with Mr Philippe Maystadt, the Belgian finance

minister, that Mr Lippens first suggested that Fortis would be interested. In fact, when the interested parties were whittled down to just two, Fortis was the only serious bidder. The other proposal, from Générale de Banque, was to pilot CGER-ASLK to a public flotation.

Petercam points out that the government itself was not directly involved in

the decision. Floating CGER-ASLK, or a part of it, would have given new energy to the stock market, the bank argued, benefiting the whole economy. But the Belgian government was constrained by its tight timetable and tough targets for privatisation proceeds - BF25bn this year, BF40bn next, BF100bn in 1995 and the same again in 1996. It did not have time to prepare a full-scale public flotation.

Given the constraints, there still a chance of a public flotation in Belgium. Mr Maystadt has always said that Belgium, the state telecommunications company, might be a candidate for a public sale-off. He is determined that part of Belgium will be sold, possibly as early as the end of next year.

But the government could face some stiff opposition - both from socialists within its own ranks, and from Mr Bernard Kok, the pugnacious chief executive of Belgacom, who argues that realising the group for pan-European liberalisation of telephone services puts Belgacom under enough pressure, without also having to bear the burden of a quick privatisation.

Earlier targets for the next stage of privatisation are the credit institutions, SNCI-NMKN (which offers credit to Belgian industry through a network of independent agents), and CCB-CREK, a mortgage lender. Mr Maystadt believes SNCI-NMKN will prove interesting to foreign banks, and expects to begin a public auction before the end of the year.

By contrast, there is growing controversy over the sale of CGEM, a state holding company, one of the most complex candidates for privatisation. The Antwerp-based industrial holding company, Adamant, is now being sold to a consortium of private investors. This is now being discussed by the government.

The privatisation programme is modest, mainly because Belgium did not have a large public sector. There is still a long way to go before the government can sell off before it runs into the political complexities of privatisation and the services - sensitive areas which even the British government has not touched.

But the sensitivity of some of Belgium's state holdings - notably a 60 per cent stake in Belgacom, the Belgian gas distribution and supply monopoly - means that the government will have to be careful to consider the possibility of selling a "golden share" to ensure political control over the sale.

Antwerp is still the diamond capital of Europe

Girl's best friend survives a crisis

Antwerp, Belgium, swept to victory in the European Union tennis championships in Antwerp this month, but it was a rare first prize. The city has long been a diamond capital, and the tournament was a rare first prize. The city has long been a diamond capital, and the tournament was a rare first prize.

Prudent intervention by the Central Selling Organisation in London (CSO), the body which regulates the distribution of rough diamonds, had helped to bring supply and demand in the cutting centres more into balance. Confidence was now returning to the trade, Mr Ogilvy-Thompson told delegates.

This view is reflected in the performance of the Belgian diamond market which saw a strong expansion in the 1980s.

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This view is reflected in the performance of the Belgian diamond market which saw a strong expansion in the 1980s.

Rise in turnover to 153.6m carats was markedly better than the 92.6m achieved in the first of 1992

followed by a period of stabilisation between 1991-2. In the past six months, the market showed signs of a revival.

The chief reasons for the improvement were a recovery in the US; a decline in the supply of illegally mined diamonds from Angola (which continues to be disrupted by the civil war and preventive action by the CSO to deal with dumping by Russian producers on key world markets.

The downside for the producers were

tighter margins, cuts in production and multiple lay-offs. In South Africa and Namibia, De Beers laid off 4000 people - about 25 per cent of its workforce.

The raw statistics tell a part of the story. Imports of diamonds rose from 65.6 per cent in weight to 87m carats. Measured by value, imports rose by 15 per cent to \$1.4bn.

Exports showed the same degree of expansion, with volume increasing by 66 per cent to 86m carats. Exports by value rose by 14 per cent to \$4.3bn, with an increase in polished diamond exports to the UK, Germany, Italy, and France, despite the persistent weakness of the European economy.

As a result, the rise in turnover to 153.6m carats was markedly better than the 92.6m achieved in the first of 1992; meanwhile, value increased substantially from \$7.8bn (1992) to \$8.7bn. Of about 45m carats of directly imported rough diamonds of gem quality, 25m - 56 per cent - come from the CSO in London.

Antwerp remains the world's most important distribution point for rough diamonds, after the CSO.

It also boasts four of the world's 20 diamond bourses which together form the Federation of Belgian Diamond Bourses. Diamantclub van Antwerpen (which celebrated its centenary this year); Beurs voor Diamanthandel; Antwerpse Diamantkring; and the Vrije Diamanthandel.

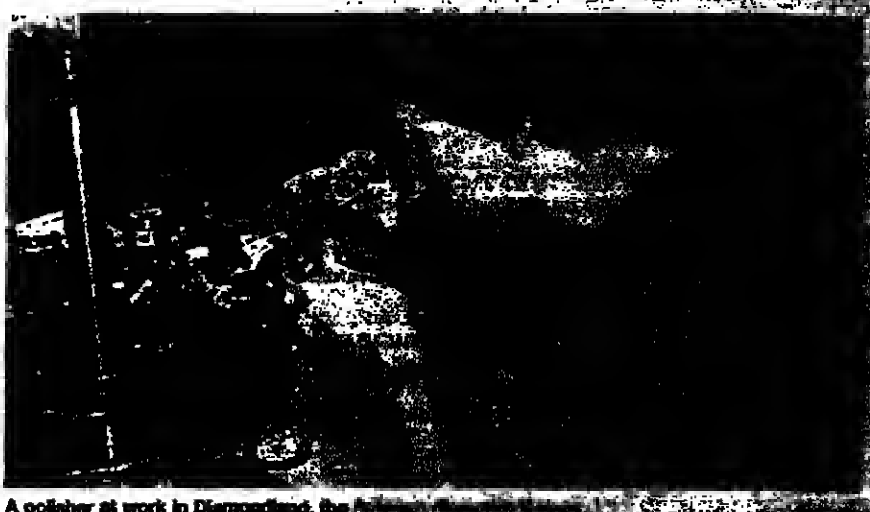
Together, the total membership of the four bourses is nearly 6000, with more than 1200 offices.

They have come a long way since the old polishing factories of the 1860s, many of which were steam-driven. Today, electronic data processing has transformed the operation of the diamond trade and industry, breaking down distances and speeding up communications.

If there is a darker side to the new age, it is that Belgium's diamond industry faces ever tougher competition, particularly from rival centres in the Far East which can exploit lower wages and costs.

Smaller Belgian manufacturers are therefore pressing for regular supplies of rough diamonds which are traded through Antwerp, while others are urging younger members of the industry to come up with new technological breakthroughs to improve competitiveness.

On the other hand, the Far East clearly offers enormous potential as a consumer



A polisher at work in Diamantclub, the Belgium diamond bourse. The bourse is a central point for the diamond trade in Antwerp.

Hilary Clarke watches the wooing of the small investor

Thrifty from the cradle up

Belgium has the highest savings rate among European Union members. Small investors are important people on the country's investment landscape.

But it is too early to see whether sweeping changes to taxation on investment revenues, agreed by the government as part of a national plan to increase growth and jobs and balance the Treasury books, will influence small investors' choices. In order to retain the support of its socialist coalition partners, the government balanced social security spending cuts by raising taxes on unearned income.

Whether or not their damp, dreary climate is the reason, the average Belgian sets aside 25 per cent of his or her disposable income for a rainy day (according to the Ministry of Finance).

A recent survey by the International Savings Bank Institute found Belgian thriftiness surpassed only by Japan, Switzerland and Singapore. Each Belgian citizen, the institute found, has an average of \$11,222 stashed away in a bank account.

The large amount of cash sloshing around in Belgium partly results from Belgian tax laws. Belgium still has one of the highest income tax levels in the EU. According to economists, Belgians like to keep their money handy, in case a larger than expected tax bill drops through the letter box. More cynically, high taxes mean that tax evasion is a national sport - the guilty need to invest away from the sight of the tax inspector.

A Belgian's wealth is staggering. Economists at Générale de Banque, Belgium's largest bank, found that the average Belgian household has BF7m (\$130,000) invested in property and financial products - increasingly, since the early 1980s, in the latter.

According to the 1991 Générale de Banque survey, 33.9 per cent of Belgian wealth was invested in property, 66 per cent in savings accounts, government bonds, life insurance and shares.

The high savings rate in Belgium is one of the main reasons why, until recently, the government did not feel compelled to deal with its debt problem. In fact about 80 per cent of government's huge borrowings in Belgium francs is owned either directly via the purchase of government bonds, or indirectly through banks investing in government bonds.

Belgians have been purchasing government bonds since the second world war, but before 1990 government bonds were not the obvious choice for the small investor. The products were complicated; it



The average Belgian saves 25 per cent of disposable income. They invest

was difficult for individuals to understand what they were buying. So the government launched a new two-tier debt instrument system, with linear bonds for larger and institutional investors and bonds sold over the counter directly to retail clients - known as Philippe bonds after Philippe Maystadt, the finance minister, who dreamed them up. Priced at about \$2,000, and announced on the radio, Philippe bonds have been very successful. Even during the Belgian franc's recent roller coaster ride on the foreign exchange markets, small investors remained loyal and held on to their bonds.

"Generally, the small investor doesn't plan to trade his or her bonds, but hangs on to them until maturity. They are not speculative, so even if an owner dies they can be passed on to children," says Mr Jean-Daniel Holognae, an economist with Banque Bruxelles Lambert. National investors are also less concerned about the effects of currency fluctuations.

The government's decision to inject more dynamism into the Belgian stock market. Despite a number of well publicised court cases involving minority shareholders in Belgium - including the legal victory of minority institutional shareholders in Wagon-Lit, the Belgian travel firm, forcing Accor, the French hotel chain, to increase its offer when it

bought the company out two years ago - small investors stay from the stock market. In fact the first moves against Accor were made by a British shareholder, the Belgians followed afterwards.

"Even larger institutional investors often lack the independence to act - as was the case with Wagon-Lit for a long time, even though the injustice was so obvious," says Mr Pierre Rothmans, of De Beers. His consulting firm specialises in helping minority shareholders, and launched the Wagon-Lit minority shareholders' offensive. The history of large investors in Belgium makes it very difficult for the small investor. So far, no shareholders have overtaken investment funds to court in Belgium for the right to act in their interests.

The proposed privatisation of Belgacom, the state-owned telecommunications company, next year, could give the Belgian stock market a much-needed boost, especially if it is carried out by a public share issue (see with British Telecom).

Meanwhile, in a bid to encourage investment in enterprises and help Belgian firms stay out of debt, banks are urged to lend more to the small investor. The interest rate on loans is 12.4 per cent, from 16 per cent, as part of the government's economic recovery.

The move has received a mixed reaction from the experts. Economists already have two changes of heart, one with the privatisation of Belgacom, targeted at domestic shareholders - who are, say, my editors, are an important stake of liquidity in the market. "They've scored an own goal on that one," says Mr Philip Richards, who analyses Belgian stocks for Smith New Court in London.

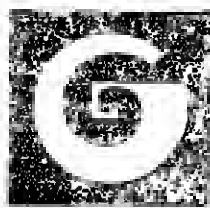
Although the new tax rules on new issues may initially appear attractive to small investors (overseas institutional investors will not benefit from the tax reduction because they already pay a lower amount), they will be "inherently illiquid, and in the long run their value would be pushed down," says Mr Richards.

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